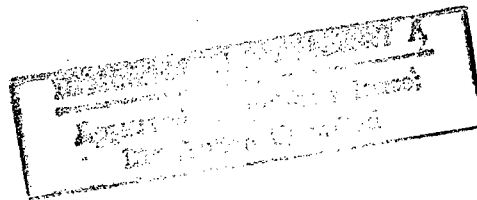


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28 June 1985



# China Report

ECONOMIC AFFAIRS

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28 June 1985

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PRC JOURNAL ON TECHNOLOGY EXCHANGE, TECHNOLOGY MARKET

HK071351 Beijing JINGJI YANJIU in Chinese No 4, 20 Apr 85 pp 64-68, 63

[Article by Yu Jun [0060 0689] of the Economics Institute under the Chinese Academy of Social Sciences: "Technology Exchange, Technology Circulation, and Technology Market"--revised January 1985]

[Text] Modern socialist production is made possible by well-developed science and technology. In the face of the challenge of the world new technological revolution in particular, economic growth must depend on technological progress. To meet the needs of the growing productive forces, a form of technological cooperation, with commodity exchange as the medium, is rapidly developing in the course of the reform of China's economic structure. A brand-new socialist technology market, in which compensation contracts are signed with scientific research units and in which there are technology stores [jishu shangdian 2111 2611 0794 1648], meetings for the exchange of technology, technology consultant companies, and so on, is taking shape. In this article, I will attempt a preliminary probe into a number of related questions.

I. The Role Played by Technology Exchange in the Conversion of Science and Technology into Productive Forces

When probing into the question of how technology enters the exchange process as a commodity, it is necessary first of all to fully understand theoretically the use of technology on a commercial basis and the necessity of technology exchange.

First, the use of technology on a commercial basis is the inevitable result of the social division of labor and the development of the commodity economy. Trade in technology came into being toward the end of feudal society and the initial stage of capitalist society. It has a history of more than 300 years, counting from the time the patent system was formally established in Britain. Before this, production and technology were one and the same thing. Producers were also the creators of technology. The method of passing down technology from generation to generation hampered the interflow and development of technology. In the initial stage of capitalist society, the development of the division of labor inside handicraft workshops

precipitated the separation of mental from physical labor in the process of direct production. The use of machinery also provided scientific research with the relevant material basis. Some people began to work in laboratories, engaging specially in technological research and development under the guidance of scientific theories. From this an independent sector of the social division of labor gradually took shape. The patent system emerged as the times required and technology was drawn into commodity circulation. Technology circulation broke the blockade put up by feudal guilds and promoted the dissemination and application of technology. It was precisely the development of the social division of labor that separated the creators from the users of technology. Science and technology was thus separated from the means of production and from labor and turned into an independent element in the process of production. Under the conditions of the commodity economy, producers wishing to obtain advanced technologies must purchase them from technology creators according to the principle of exchange at equal value.

As China's socialist economy is still a planned commodity economy, it is imperative, under these circumstances, that technology be used on a commercial basis. In particular, with the rapid development of the world new technological revolution, technical strengths, manifested in terms of the means of labor, will grow many times faster than previously under conditions of the development of modern intensive production. The speed of modern scientific and technological progress requires that laborers quadruple their scientific and technological knowledge once every 8 to 10 years, or even 5 to 8 years. (Footnote 1) (I. Likhacheva (Soviet): "Science and Productive Forces," JINGJIXUE YICONG [Collected Translation on Economics], No 7, 1984) How to promote economic development by means of science and technology is an important strategic question not only for China but also for other countries in the present-day world. Rather than rejecting technology circulation, socialism seeks to do away with the narrow-minded bourgeois notion of seeking profits and to develop technology circulation on a more extensive scale.

Second, the use of technology on a commercial basis is the inevitable result of the reform of the scientific research system and the production management system. In the past, we believed that since research programs were funded by the state and scientific and technological personnel were paid by the state, the achievements of science and technology naturally belonged to the state and were not to be exchanged as commodities. This idea was the product of a highly centralized economic management system. Practice has proved that the system of scientific and technological research and application practiced in the past had many drawbacks. The supply system and the practice of "everybody eating from the same big pot" dampened the enthusiasm of the creators as well as the users of technology. Mandatory administrative orders resulted in duplication and waste in research work and in serious dislocation between research work and production. The vertical management system and the unitary channel of dissemination made it impossible to spread advanced technology fast. As a result, the results of scientific research were shelved and remained as samples, display items, and gifts for prolonged periods. The materialization process was slow and the utilization rate remained at 10 to 30 percent. In some developed countries,



the rate of utilization of the results of scientific research reaches 70 to 80 percent. (Footnote 2) (Guan Enguo [7070 1869 0948]: "Technological Exploitation Is an Important Means of Making Money," JINGJI YANJIU No 5, 1983) The research-production cycle takes only 3 to 4 years, sometimes not even that long. According to statistics, in many developed nations of the world, technological achievements are responsible for 60 to 70 percent, or even 80 percent, of their country's economic growth. (Footnote 3) ("The Role of Science and Technology in the Development of Our National Economy," BAIKE ZHISHI [ENCYLOPAIC KNOWLEDGE], No 2, 1982) In our country the contributions of technological progress only accounted for a dozen percent or so. (Footnote 4) (Feng Zhijun [7458 0037 3182]: [A Preliminary Study Into the New Technological Revolution and the Strategic Countermeasures Taken by Shanghai," in Ushering in the New Technological Revolution," published by the Hunan Science and Technology Publishing House in 1984, p 328) Thus, in the reform of the scientific research system, we must recognize and implement the principle of using technology on a commercial basis in order to speed up technology circulation and promote the development of the productive forces.

Third, under the conditions of the commodity economy, the conversion of science and technology into productive forces is dependent on the medium of commodity exchange. For a long time, we have overlooked the role of this medium, with the result that scientific research became divorced from production. Due to the social division of labor, the creation and use of technology, that is, the production and the consumption of technology, became separated. The conversion of science and technology into productive forces can only be realized through the medium of exchange. In this connection, technology exchange has a unique role to play.

1. Technology exchange can resolve those contradictions between the production and the consumption of technology produced by separation in terms of time and space. It links the two. In particular, because the products of science and technology cannot be mass produced and are liable to be affected by separation in terms of time, space, and people, the production and the consumption of technology become completely cut off from each other. Therefore, we need exchange all the more as a medium of passing on information in order that advanced technology can be circulated, widely popularized, and made use of in a timely way.

2. Commodity exchange is the most powerful weapon for smashing the narrow-minded concept and feudal stronghold of small production and for making public the secrets of technology. As far as enterprises that make use of advanced technology are concerned, under conditions of the exchange of technology as a commodity in society, the spread of advanced technology has become an inexorable trend independent of man's will. If they keep the secrets of their technology closely guarded, once similar or more advanced technology appears in the technology market, theirs will become worthless. But, if they sell their technological achievements before others do, they can obtain due material gains. It is precisely under the pressure of this kind of market competition and the stimulation of gains that advanced

technology is continually being turned into technology shared by the whole society, and has brought about a general rise in the level of social productive forces. Statistics show that unless the method of commodity exchange is adopted, over 25 percent of inventions, 41 percent of new methods, and 55 percent of improved methods will not be known to the public. It can thus be seen that the might of economic laws is beyond any administrative force.

3. The principle of exchange at equal value followed in commodity exchange links the quantity and quality of the production of technology with the material gains of their inventors and creators and stimulates their enthusiasm. Meanwhile, under conditions of technology exchange, scientific and technological achievements must be sold on the market before the individual labor of their creators can be recognized by society. This is conducive to changing the common practice in scientific research where by scientific and technological personnel only go after more advanced technological breakthroughs and ignore practicality, and to making scientific research serve actual economic life.

4. The intermediate role played by technology exchange in scientific and technological reproduction make it possible for live and materialized labor consumed in scientific research to be promptly compensated for and for reproduction to go on. In this way, the creation of technology can develop itself into an organic and self-perpetuating movement according to the law of reproduction, and contradictions resulting from sole reliance on external forces (appropriations from the state) can be avoided. Contradictions of this kind include the abortion of meaningful projects due to a shortage of funds, while huge sums of money were wasted on meaningless projects as a result of bureaucratism.

## II. The General and Specific Laws of Technology Exchange

In order to fully bring into play the role of exchange in turning science and technology into productive forces, it is necessary to follow the objective laws of technology exchange.

First, as a commodity circulation, technology circulation has the general character of commodity circulation.

1. Technology circulation is inevitably followed by the transfer of ownership or right of use of commodities, with the result that the sellers of technological commodities can obtain due material gains. At present, state-owned scientific research and production units enjoy relatively independent self-management and economic interests. Whoever owns the use value of technological commodities may reap extra profits. If they transfer their patent to others, that is, sell their technological commodities once and for all, they will lose the ownership, and with it the use value, of their commodities. If they do not transfer their patent, that is, if they only transfer the right of use of their technological commodities, they will only lose part of their right of use. The reason for this is that when the purchaser obtains the right of use of a technology, he becomes the rival of the seller

and shares the extra profits reaped by the seller on the strength of advanced technology. Thus, it is necessary to recognize that persons or units that invented the technology have the right of ownership of that technology, and to guarantee that they can obtain due material gains through transfer. This is the prerequisite for technology circulation.

2. It must follow the principle of exchange at equal value. The price of technological commodities is determined by their value, that is, the socially necessary labor-time for their production. There should be no doubt about this. Engels held that the compensated value of technological commodities should "find its place under the item of production cost in political economy." (Footnote 5) (Engels: "An Outline of the Critique of Political Economy" in "Collected Works of Marx and Engels," vol 1, p 697) For a given period, enterprises that have obtained technological commodities may find that the individual value of their products may be lower than their social value. Part of this difference may be made use of to compensate for the increase in production cost due to the purchase of technology.

3. It assumes the dual form of both not taking commerce as the medium and of taking commerce as the medium. As an intermediate link in technology circulation, institutions specializing in technology exchange can save the time of both parties to the exchange. They can also more fully bring into play the dynamic role of exchange by passing on information on production and consumption and providing all kinds of services for both parties. Thus, in developing technology circulation, it is also necessary to develop technology stores, companies, and so on in a corresponding way. But whether or not technology circulation has to go through this intermediate link must be preconditioned by economic rationality. At present, the technology centers and consultant companies set up by some units require their units to go to them in the event of technological transfer or counseling and charge them phenomenal fees. When the producers and the consumers of technology should have been able to conduct the exchange directly, their presence has prolonged the time and increased the cost of circulation.

Second, as a special kind of circulation, technology circulation has its special features.

1. Seen in terms of the transfer of use value, the circulation of technology as a commodity is preconditioned by its advanced character. Generally speaking, the utility of technology lies in the fact that after being applied in the production process, it can raise labor productivity or save labor. Many people see this as the use value of technological commodities. Actually, the use value of a technological commodity is the extra additional value that its buyer gets. When this is put into application, it will generate greater productive forces. The difference is manifested in the fact that the unit value of commodities produced by the buyer of this technological commodity is lower than their social value. This is how extra earnings are obtained. Thus, not all technologies can be circulated as commodities. Even one and the same technology can only be circulated as a commodity within a certain period. Once this technology has been mastered by society at large, it will lose its use value and no one will buy this commodity. In addition, the

transfer of the use value of material commodities is inevitably accompanied by the spatial movement of the material objects. As a commodity in the form of knowledge, the transfer of the use value of technology is often intangible. Thus, protection of the seller's right of ownership is totally dependent on law. Without a sound legal system, the normal circulation of technology cannot be guaranteed.

2. Seen in terms of value and with other conditions remaining unchanged, the time taken to produce material goods is equivalent to their reproduction time. But this is not the case with technological products. It may take an inventor decades, even all his life, to invent something, but it would only take several minutes to reproduce it. Thus, the determination of the value of technologies not only involves the question of converting complex labor into simple labor, it also involves the question of how production time and reproduction time are to be differentiated. This is something that we must pay attention to when we implement the principle of exchange at equal value.

3. The exchange of technological commodities generally assumes two forms. The first is the transfer of ownership, with the buyer paying for the commodity in full and being entitled to resell the commodity. The seller has no right to resell or use this technology. The second does not involve the transfer of ownership. The buyer only buys the right of use of the commodity and cannot resell the commodity. He only gets part of the use value of the commodity and pays for part of the value of the commodity. In the meantime, the seller may also make use of this technology, or transfer its right of use to another party. Payment for the price of the technology usually takes two forms, payment for the item in a lump sum or payment by installment within a given period according to a fixed percentage of the profits (or sales volume, or output) realized by the buyer. The second method is adopted mainly because it is not easy to determine the use value of a technological commodity beforehand without infringing on the interests of the buyer. However, the earnings made by an enterprise as a result of adopting new technology are not determined only by the advanced character and suitability of the technology: they are also affected by such factors as enterprise management and personnel. Thus, it is more rational to adopt a form that combines the two.

4. Technology circulation is not accompanied by the spatial movement of material objects. Hence transport and safekeeping are not required and display centers are not compulsory. This speeds up circulation and reduces costs. But, on the other hand, the production of technology is highly original and its consumption is characterized by the fact that it only suits special and limited purposes. For example, more other than not one technology can only solve one particular technical problem in a particular technological process during the production of a particular commodity. Thus, the communication of information between production and consumption becomes all the more important. In order to develop technology circulation, it is necessary to break down barriers between regions and departments, to set up extensive information exchange networks throughout the country, to institute a system of regular announcement of patents, to develop modern communications

technology, to make use of modern electronic equipment to provide patent storage and inquiry services, and so on.

5. As an intermediate link in the conversion of science and technology into productive forces, technology circulation is not only conditioned by the law of value and the law of supply and demand, but is also directly restricted by various laws of productive forces. For example, the law of the uneven development of productive forces not only provides the basis and [word indistinct] for technology circulation, it also determines the direction of technology circulation, which always moves from advanced areas to backward areas and from advanced sectors to backward sectors. The law of the accelerated development of productive forces, on the other hand, determines the speed of technical renovation and therefore the scale and structure of the realm of technology circulation.

### III. Establish a Socialist Unified Technology Market That Meets the Needs of Economic Development

The development of technology circulation is bound to give rise to a domestic technology market. At the same time, if we want to fully bring into play the role of technology circulation in the conversion of science and technology into productive forces, we must also strive to open up and improve the technology market.

After science and technology are separated from the process of material production and become an independent sector of the social division of labor, technology will also split off from the means of production and labor and become an important independent factor of the productive forces. If we are to carry out reproduction, we must not only compensate for the materialized and live labor consumed but must also supply new technological factors. Otherwise producers will be eliminated through competition. In this way, not only the exchange of material products for material products, but also the exchange of intellectual products for material products have become essential links of reproduction. In the huge cycle of social reproduction, the sphere of production of intellectual products and the sphere of production of material products are interrelated, and the two act on each other through exchange. Moreover, in the production of intellectual products, some products belong to the category of intermediate products. They cannot enter the sphere of production immediately and have to be further processed and "supplemented" before they are turned into applied technologies. We call this kind of production the first category of intellectual production, and call the production of technological products that can enter the production process immediately the second category of intellectual production. Of course, our first category here does not refer to scientific knowledge that belongs to basic theory in general, but refers to scientific and technological achievements that are advanced, original, and practical in nature. Thus, within the sphere of intellectual production, there again exists exchange between two categories, by which we mean the transfer and proliferation of technological achievements of a higher level to a lower level of research. This kind of transfer of intellectual products from the first category to the

second, and subsequently the transfer of intellectual products to the sphere of material production give rise to the technology market. This, together with the exchange market between the two categories within the sphere of material production, give rise to a unified domestic market.

Seen from the actual situation in our country, the setting up of a unified domestic technology market is of particularly great significance.

First, in the process of achieving the four modernizations, a large number of new enterprises have to be established on the foundation of advanced technology, and large-scale renovation and transformation have to be carried out in existing enterprises. At present, the forces of technology in the world are undergoing tremendous changes. Under this situation, some industrially developed countries will be reluctant to export advanced technologies due to political or economic reasons. Even if technology is imported, it has to be further reformed and "supplemented" before it can be applied in the sphere of production. Thus, the transfer of technological products from the sector of intellectual production to the sector of material production within the country has become the principal source upon which the latter relies to raise its technological level. For this reason, the setting up of a technology market is imperative.

Second, the strength of scientific and technological research in our country is weak and cannot meet the needs of the sector of material production. For example, among China's 6.8 million scientific and technological personnel, only 17.6 percent are of medium or high caliber. The figures for the United States and Japan are 62 percent and 80 percent respectively. Our means of scientific research are backward. A researcher spends more than 50 percent of his time on gathering materials and can only spend no more than 7 percent of his time on considering problems. This greatly affects the labor productivity of the production of intellectual products. (Footnote 6) (Wu Mingyu [0702 2494 3842]: "A Study of Changes in Modern Technology and Economy and Our Countermeasures," in "Ushering in the New Technological Revolution," p 112) In scientifically and technologically advanced countries of the world today, research spending normally amounts to between 2 and 4 percent of their national income, but in our country, it only amounts to 0.6 percent. (Footnote 7) (Guan Enguo [7070 1869 0948]: "Technological Exploitation Is an Important Means of Making Money," JINGJI YANJIU No 5, 1983) This makes it all the more necessary to bring into play the role of the technology market in order to arouse the enthusiasm of the scientific and technological personnel, readjust the irrational distribution of China's scientific and technological resources, and tap all potential to more fully and more directly serve economic construction.

Third, China's present economic and technological level is extremely unbalanced. There is a wide gap between coastal areas and the interior, between the big cities and the medium-sized and small cities, between military and civilian industries, and between advanced enterprises and backward enterprises. It has been calculated that if the country's average technological

level reached Shanghai's present level, the value of industrial production could be raised by 150 percent, even without a corresponding increase in fixed assets. In order to achieve this goal, it is necessary to set up a unified and open technology market on a national scale.

In the light of China's conditions, the technology market should measures up to the following requirements:

1) It must guarantee the continuity of the vertical movement of technology circulation, that is, the unimpeded transfer of technological products from the first category of the sphere of intellectual production to the second and also the transfer of the second category to the sphere of material production, so as to ensure the prompt application of scientific and technological achievements in the sphere of production. 2) It must guarantee the overall and coordinated nature of the horizontal movement of technology circulation and break down the barriers between regions and sectors in order to ensure the unimpeded transfer of technological products from advanced regions and sectors to backward regions and sectors. Seen in terms of the area and structure of the market, it is necessary first of all to form a large national technology market that radiates in concentric circles, with scientific research institutions in places like Beijing and Shanghai and with universities and colleges as centers. Second, it is necessary to set up large regional markets trade radiate in a fan shape for the transfer of technology from the eastern coastal areas to the west. Third, it is necessary to set up small regional markets that radiate in concentric circles, with scientific research and educational institutions and advanced enterprises of the big and medium-sized cities of various provinces as centers. In this way, with technology markets at different levels supporting and interpenetrating each other, it will be possible to bring about the transition from partial to complete replacement of backward technology by advanced technology, and eventually the transition from partial to complete replacement at a higher level.

At present, technology circulation in our country is still preliminary, partial, and spontaneous. As to how the technology market is to be further opened up and improved, it is still necessary to probe further into a number of theoretical issues.

1. How are we going to incorporate technology circulation into state plans? Like the circulation of material commodities, technology circulation in our country is subject to state planning and guidance and is not conducted freely and blindly. For example, in regard to certain scientific research projects that urgently need to be developed or popularized, or in regard to the transfer of technology in a particular direction, the state may give encouragement by offering tax reductions or exemption on their development or application. In regard to certain technological projects, such as those aiming at the elimination of the three wastes and at energy conservation, the state may purchase them at a high price and sell them at a low price, or even make them available for use free of charge. In short, we should study how to gradually form a technology exchange network that is characterized by its

rational distribution and relatively stable direction of movement through state planning and guidance, so that we can consciously apply market forces to arrange and organize technological resources and raise the technological level in society.

2. Are we going to open a human resources market? The transfer of science and technology is inevitably accompanied by the transfer of scientific and technological capabilities. This gives rise to the question of the flow of scientific and technological personnel. In fact, the hiring and recruitment of scientific and technological personnel are already under way in certain technology exchange markets. How we are to perceive this question and whether or not this implies the use of human resources on a commercial basis need to be clarified on the theoretical plane.

3. How should income from technology transfer be distributed? It is stipulated in this year's "Provisional Regulations of the State Council on Technology Transfer" that 50 to 10 percent shall be drawn from the net income from technology transfer to be used as rewards, and these are to be distributed by the person responsible for the job. This is a big step forward. However, the phenomenon of "everybody eating from the same big pot" is still serious in scientific research work. After all kinds of deductions at different levels, the "net income" of technology transfer is negligible. Moreover, funds deducted in the name of cost compensation are often not truly spent on reproduction, and scientific research personnel have no say in the matter. Thus, how we are to calculate and distribute the cost and net income from transfer is a practical problem.

4. How we are to calculate the economic benefits of technology in technology transfer is a difficult problem. This is essentially a question of the appraisal of the use value of technological commodities, which also affects the pricing of the technology. The application of technology means the conversion of energy and matter from the technological system to the economic system. These two systems have different standards of measurement. The former formally takes matter and energy as units of calculation, while the latter takes materials objects (output) and money (output value and profits) as units of calculation. Thus, technical rationality and economic rationality do not always agree, and this gives rise to conflict between the two parties involved in technology transfers. This needs to be solved through the joint efforts of technological and economic workers.

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NATIONAL POLICY AND ISSUES

PAPER COMPARES PLANNED, COMMODITY ECONOMIES

HK061017 Beijing GUANGMING RIBAO in Chinese 18 May 85 p 3

[Article by Sun Xuwen [1327 1331 2429]: "A Talk on the Similarities and Dissimilarities Between Planned Economy and Commodity Economy"]

[Text] Socialist planned economy and commodity economy simultaneously exist in the unity of the socialist economy. This has been proved by the practice of the economic construction of various socialist countries. As two economic modes that coexist in one social mode, there are similarities and dissimilarities between these two modes. Making clear the similarities and dissimilarities between the two is of great significance in developing the socialist economy and reforming the economic structure.

The main reason there are similarities between planned and commodity economies is because they are restricted by social and economic conditions and have their objective internal relations.

First, there is something identical in the preconditions that cause them to emerge. The preconditions that cause commodity to emerge are social division of labor and the existence of different owners; while the preconditions for the emergence of the planned economy is the socialization of production and the public ownership of the means of production. As socialist society carries out socialized mass production, objectively, there is a social division of labor. The commodity economy originates from the mutual exchange of goods between producers of different products. None of the various socialist countries have undergone the stage of the high-level development of the commodity economy, but various tiers of productive forces exist in all these countries; therefore, correspondingly there must be various kinds of ownership to suit them. In other words, during the current stage of socialism, the means of production continue to be owned by different owners, who can only adopt the form of commodity exchange in dealing with one another. At the same time, as labor continues to be a means of earn a livelihood, the state can only distribute personal consumer goods among the staff and workers through the forms of commodity and currency. Though all the enterprises of socialist ownership by the whole people are owned by the state, each of these enterprises still is a relatively independent commodity producer

and operator and has its own relatively independent economic interests; therefore, the economic relations between them can only be realized through commodity exchange. Therefore, from the point of view of the social economic conditions whereby there is social division of labor and the means of production (including labor products) belong to different owners, there is something in common in the preconditions for the emergence of the planned economy and for that of the commodity economy.

Second, the goal of their development has something identical. What we call a planned economy refers to a mode of economy that develops under the guidance of society's unified plans. It demands that through its center and in a planned manner, society arranges the proportional relations between the various sectors of the national economy and a rational layout of the productive forces, effectively uses labor, material, and financial resources and thus promotes a high degree of development of the production of society and satisfies the continuously increasing demand of society and the people. What we call a commodity economy denotes a mode of economy that regards direct exchange as its goal. It demands that people carry out production in light of the socially necessary labor time, distribute labor products in accordance with the principle of exchange at equal value and it thus encourages people to produce more marketable commodities, increase social wealth and attain the goal of satisfying the continuously increasing demands of the society and the people. Obviously, the development of both the planned economy and the commodity economy is conducted under the unified arrangement of the state and is aimed at benefiting the people as a whole. Therefore, the foundation for the unity between the planned economy and the commodity economy lies in the fact that the socialist state represents the interests of all the people.

Third, the economic laws for the two economies have common requirements. The basic law for a planned economy is the law of planned and proportionate development, and the basic requirement of this law is that the means of production and labor be distributed among various production sectors through state plans and in accordance with the proportion that society objectively needs, and thus maintain a balance between production and demands and enable social reproduction to develop in a harmonized manner. The basic law for a commodity economy is the law of value. The basic requirements of this law are that the price of a commodity should conform to its value and that through the fluctuation of the prices around the value the distribution of the means of production and labor among various sectors is spontaneously regulated in a commodity economy. Therefore, both economies have the function of regulating the proportion of the distribution of social labor among various sectors.

Fourth, the two economies merge into one unity in the sphere of the reproduction of material means. Under socialist conditions, from the point of view of the major aspect of the process of the social reproduction of material means, planned and commodity economies simultaneously exist in the principal things that consist of production, distribution, exchange, and consumption. In other words, the two economies are two aspects of the same principal thing. For example, the steel produced by the Capital Iron and Steel Company

(as a large backbone enterprise owned by the whole people) is produced under the guidance of state plans (including both mandatory and guidance plans), but is exchanged as a commodity in accordance with the laws of a commodity economy. Therefore the steel produced by that company is contained in the economic category of the commodity economy, as well as in that of the planned economy. In other words, two kinds of economic modes are embodied in one thing.

As two kinds of different economic modes, the planned and commodity economies differ from each other because each of them is governed by the law determined by its nature.

First, they exert their functions on different objects. Under socialist conditions, the commodity economy exerts its functions only on the labor products for exchange while the things that have not been processed by human labor and the labor products that are not for exchange are not commodities. The objects that the planned economy exerts its functions on consist not only of the labor products that go into the process of exchange but also the natural resources that have not been processed by human labor and the labor products that are not for exchange, such as the portion of products consumed by the peasants themselves and the portion of products consumed by the laborers in various forms of the economy. All these are objects that are exploited and utilized under the guidance of the unified plans of the state. They are also indispensable from the point of view that regards the balance between total social demand and supply as the foundation, and are taken into account in the investment in fixed assets, gross social output value and national income.

Second, they involve different spheres. The planned economy involves various spheres of the whole economy, science and technology, and social life. However, generally, socialist commodity economy is only restricted in the spheres of the reproduction of material means and spiritual civilization. Even in the sphere of the reproduction of material means, the sphere of the planned economy is greater than that of the commodity economy. It includes land that cannot be exchanged as a commodity, mines, banks, railways, labor forces and all state-owned enterprises. And the planned economy must regard these as the main things for rational utilization, unified planning, and coordinated development.

Third, they reflect different relations. The planned economy reflects the socialist unity that has been given rise to by the foundation of public ownership and the identity of the fundamental interest of the various departments, trades, areas, and enterprises. It also reflects the relations of division of labor and cooperation between various economic units and between various people. The commodity economy, however, reflects the diversification in the forms of public ownership, the independence of the socialist enterprises, and the difference between the specific interests of various enterprises. Generally speaking, what a commodity economy reflects is the relations of exchange at equal value, competition, purchase and sales and mutual

benefits between various commodity producers and operators. Under socialist conditions, utilizing the above-mentioned relations reflected by the commodity economy plays an important role in promoting the development of the socialist economy. But we should also admit that in the widespread development of the socialist economy, there will inevitably be relatively great blindness and spontaneity. In particular, in the areas where the state plans cannot correctly guide or cannot take into account, inevitably, some negative phenomena and illegal activities will occur. Therefore, the planned economy embodies the main stream whereby the relations of production are socialist relations of production and reflects the essence of these relations; while the commodity economy embodies the nonessentials and reflects the characteristics.

Fourth, the forms of regulations differ. The regulation of the plans, is a conscious regulation that proceeds from the consideration of the whole society and that is carried out consciously, directly, and beforehand; while, from the point of view of its inherent requirements, the regulation of the law of value is a kind of spontaneous, indirect, and after-the-event regulation that proceeds from partial interests and that are characterized by a blind competition. Although both planned regulation and regulation by value are necessary and although for the regulation both before and after the event, we should give play to the role of the law of value, the regulation of planning beforehand ensures that the major proportional relations of our socialist national economy are appropriate and that this economy roughly develops in a proportionate manner and is, therefore, of critical importance. This is the major manifestation of the planned nature of socialism and is also an important characteristic of the socialist economy, a characteristic that makes a socialist economy different from a capitalist economy.

CSO: 4006/675

NATIONAL POLICY AND ISSUES

ARTICLE ON SOCIALISM, GROWTH OF PRODUCTIVE FORCES

HK050416 Beijing GUANGMING RIBAO in Chinese 20 May 85 p 3

[Article by Zheng Wenlin [6774 2429 2651]: [The Superiority of Socialism Must Be Manifested by the Development Speed of the Productive Forces"]

[Text] The socialist system is a social formation of a higher level established following the negation of the capitalist system, and socialism ought to be superior to capitalism. This should never have become a problem. However, because of special historical conditions, all socialist countries, including China, are founded on a backward foundation rather than a foundation of advanced capitalism. Therefore, the superiority of socialism has only been displayed to a limited extent for a period of time. Hence, a question is posed to these countries: How should a socialist country be developed so as to display the superiority of socialism?

Not long ago, Comrade Deng Xiaoping pointed out: "The most fundamental task in the socialist stage is to develop the productive forces. The manifestation of the superiority of socialism is achieved when the productive forces under socialism are more advanced and developed than those under capitalism." ("Building Socialism With Chinese Characteristics," p 35-36) In other words, the superiority of socialism must be manifested by the growth rate of the productive forces. This is a scientific conclusion derived from summing up the positive and negative experiences of many years in China's development by applying the basic concept of historical materialism. It serves as a key in our efforts to scientifically understand socialism and display its superiority.

In accordance with the basic concept of historical materialism, the productive forces are the most fundamental force propelling the society forward and the foundation for the whole history of mankind. The most fundamental reason for the replacement of the old social system by a new one is that the productive forces developed under the old social system have been incompatible with the system itself and therefore, the objective law that the productive forces determine the relations of production shows that the old system is doomed and the new system is bound to be victorious. The fundamental reason for the new system's superiority over the old one is that the new system can contain new productive forces and help them develop at a faster rate

than those under the old system. In this connection, Frederick Engels said: "Any change in the social system, and every change in the relations of ownership, is the inevitable result of the development of the new productive forces which are no longer commensurate with the old relations of ownership." ("Selected Works of Marx and Engels," vol 1, p 218) It was precisely due to this basic concept that Marx maintained that the feudal system is superior to the slave system, the capitalist system to the feudal system, and the socialist and communist systems to the capitalist system. Without the development of the productive forces as a criterion, making a scientific judgment on the superiority or inferiority of two social systems will be out of the question.

However, under the influence of "leftist" guiding ideology, when approaching or expounding the superiority of socialism, in the past people regarded "the moral level" and "ideological consciousness" as the main indicators showing socialism's superiority over capitalism, and even viewed "egalitarianism" and the practice of everybody eating "from the same big pot" as the superiority of socialism. This was caused by people's failure to proceed from the growth of the productive forces. This is not a scientific concept of historical materialism. True, the moral level and ideological consciousness of people under the socialist system are generally higher than those of people in a capitalist society. In this sense, it can be said that this is the manifestation of the superiority of socialism. However, the main manifestation of the superiority of socialism does not lie here. This is because people's ideological consciousness and moral level are related to their thoughts, which are determined by their social being. People's ideological consciousness and moral level are ultimately determined by the development of the productive forces, and spiritual civilization is ultimately determined by the development of material civilization. This is because spiritual civilization stems from material civilization. In the past, when appraising the superiority or inferiority of the capitalist and feudal systems, Marx and Engels said that although the bourgeoisie "has put an end to all feudal, patriarchal, idyllic relations;" "Swept away all fixed or frozen relations with their train of ancient and venerable prejudices and opinions;" "drowned the most heavenly ecstasies of religious fervor, of chivalrous enthusiasm, of philistine sentimentalism, in the icy water of egotistical calculation;" and "has resolved personal worth into exchange of value," "the bourgeoisie, during its rule of a scant 100 years, has created more massive and more colossal productive forces than have all preceding generations together." Therefore, "the bourgeoisie has historically played a most revolutionary role." That is, the capitalist system is superior to the feudal system. ("Selected Works of Marx and Engels," vol 1, pp 253-256) The superiority of socialism must also manifest itself mainly in the development of the productive forces. This means that under socialism, the social productive forces can develop at a swift pace unseen in the old society and the ever growing needs of the people for their material and cultural lives can gradually be met. Historical materialism holds that the result of correct political leadership and ideological education, in the final analysis, is manifested in the developed productive forces and the improved material life of the people. If the growth rate of the productive

forces of socialist countries is slower than that of capitalist countries and few improvements are made in the people's material and cultural lives over a long historical period, then what right do we have to speak of the superiority of socialism?

The question of what viewpoint should be adopted in appraising the superiority of socialism is a question that concerns the scientific understanding of socialism and especially the main orientation of the future development of socialism in China. Scientific socialism is a social system under which the public ownership system predominates, a system which is related to modern mass production, rather than a "realm of reason and eternal justice" which the European utopian socialists intended to build. This social system is in itself the ultimate goal and inevitable result of the development of the modern social productive forces. Without a high level of development of the productive forces there would be no scientific socialism. The superiority of socialism can only be manifested by the high-speed development of the productive forces. Of course, by the high-speed development of productive forces, we mean high-speed development achieved on the basis of an overall balance and the attainment of better economic results rather than blindly sought high targets. In addition, while developing the productive forces, that is, while building material civilization, we should also vigorously build the socialist spiritual civilization. Our main efforts should be devoted to helping the masses of people become people with lofty ideals, moral integrity, education, and a sense of discipline. That is also a manifestation of the superiority of socialism. However, as Comrade Deng Xiaoping has said: The socialist system is superior to the capitalist system. This superiority should manifest itself in many ways, "but first and foremost it must be revealed in the rate of economic growth and in economic efficiency." ("Selected Works of Deng Xiaoping," p 215) Therefore, to enable socialism to ultimately triumph over capitalism and to display the superiority of socialism, it is necessary to make the development of the productive forces the prime task. For this reason, the CPC Central Committee has repeatedly pointed out: The most important task of socialism is to develop the social productive forces. Since the 3d Plenary Session of the 11th CPC Central Committee, the CPC Central Committee has led the people throughout the country in formulating the concept of "carrying out the four modernizations program wholeheartedly" as the party political line; in shifting the focus of work to economic construction; in setting the work target to "quadruple" the annual gross value of industrial and agricultural production by the turn of this century; in implementing the policy of invigorating the domestic economy and opening up to the outside world; in introducing the system of contracted responsibilities with payment linked to output and carrying out the policy of further enlivening the economy in the rural areas; and in working out the decisions on reform of the economic structure and the science and technology system, with a view to liberating and developing the productive forces so that the superiority of socialism can be genuinely brought into play. Remarkable achievements have been scored in practice in all these fields. Now the people have become aware of the superiority of socialism in their actual lives and not just in slogans. So long as we follow this road persistently, the superiority of our socialist system can be brought into greater play.

NATIONAL POLICY AND ISSUES

MEETING ON INLAND COASTAL ECONOMIC TIES

owl00600 Beijing XINHUA Domestic Service in Chinese 1438 GMT 7 Jun 85

[Text] Chengdu, 7 Jun (XINHUA)--In order to link closely economic development in coastal areas with the economic opening up in inland areas, the State Council office for three-zone construction, readjustment, reform and planning [guo wu yuan san xian jian she tiao zheng gai zao guo hua ban gong shi 0943 0632 7108 0005 4848 1696 6080 6148 2419 2395 6644 6016 0439 6586 0361 1358] held a preparatory discussion meeting on economic and technical cooperation between the first and third zones from 1 to 7 June in Chengdu.

The first and the third zones are economic-geographical concepts defined during the period of large-scale economic construction in our country. The so-called first zone means the coastal provinces and cities where there is a better industrial foundation and the third zone denotes inland areas where the industrial foundation is weak. The latter includes Sichuan, Guizhou, Yunnan, Shanxi, and Gansu provinces and the western parts of Henan, Hubei, and Hunan provinces. In addition to the representatives of the above-said eight provinces and Chongqing City, representatives of the coastal provinces, cities and autonomous regions of Shanghai, Tianjin, Jiangsu, Zhejiang, Fujian, Guangdong, and Guangxi, and comrades of State Council departments concerned also attended the meeting. This was the very first meeting ever held in our country on economic and technical cooperation between eastern and western China.

Lu Daodong, director of the State Council office, said at the meeting: The State Council's advocacy for closer linkage between the first and the third zones is an important policy decision based on the practical economic foundation, natural geographical conditions, main strong points, and restricting factors of both the coastal and the inland areas. It is also the natural economic development trend after the coastal areas are opened to the outside world. This policy decision is of extremely important strategic significance in further developing the strong points of the first and the third zones, strengthening the horizontal economic ties, further improving the distribution of the productive forces in our country, and speeding up our socialist modernization.

Lu Daodong said: The coastal area in the first zone occupies a pivotal position in the national economy as a whole. It was China's old industrial



base and underwent new development after the founding of our republic. Its total industrial output value at present accounts for 60 percent of the national total. In this area, the commodity economy is more developed, transportation facilities are more available, information is easily accessible, and the technical and management level is comparatively higher. It is the hub of China's "external and internal economic activities." However, there are factors that restrict its development. They are chiefly insufficient in energy sources, lack of mineral resources, and shortage of raw and semi-finished materials. The third zone lies inland with a vast land area, a large population, and rich natural resources. Since the large-scale construction carried out after the founding of our republic, in particular, after 1965, a nearly all-inclusive industrial system with heavy industry as the main body, has been basically set up in the third zone. Here, the potential hydropower resources account for over one half of the national total; coal reserves, 43 percent; reserves of the 15 mineral products that play a decisive role in the distribution of productive forces throughout the country, 50 percent to 90 percent; while farm, sideline, indigenous, and special products such as silk, ramie, hide and leather, citrus, tobacco, liquor and wine, natural spices, and previous Chinese medicinal herbs are abundant. However, located inland, the third zone's transportation facilities are inadequate, it is less informed, its ability to open up its resources is weak, some of its processing technical knowhow is backward, and its management and professional coordination level is low. These restrict the development of the inland potential.

Lu Dadong emphatically pointed out: The strong points of the first zone are the weak points of the third zone while the strong points of the third zone are what is insufficient in the first zone. Linking the first zone with the third zone and letting them supplement each other's weak points with their own strong points, our economic development will be quickened.

Representatives at the meeting said: Linking the first and the third zones is a component part of the continuing reform of the economic system in our country. To develop generally economic and technical cooperation between coastal and inland areas, it is imperative to reform the management system that is incompatible with horizontal economic ties, to break the barriers between departments and regions, to do away with the self-complacent, closed-door production form, and to achieve common development and prosperity through multiple forms of cooperation on the principle of mutual benefit. At the same time, it is necessary genuinely to delegate power to enterprises so that they may independently seek economic and technical cooperation with as many partners as possible.

Representatives introduced to the meeting the conditions of their respective places and expressed their desire for cooperation. After extensive bilateral and multilateral negotiations, some 650 cooperation agreements of intent were signed.

NATIONAL POLICY AND ISSUES

GUANGMING RIBAO ON AIMS OF SOCIALIST PRODUCTION

HK030455 Beijing GUANGMING RIBAO in Chinese 18 May 85 p 3

[Article by Li Yingqing [2621 2503 7230]: "A Tentative Discussion on Aims of Socialist Production"]

[Text] In studying the aims of socialist production, we must proceed from two aspects--the socialist system of public ownership and a commodity economy. This is because the socialist economy develops and changes along with the relations of public ownership and the relations of a commodity economy.

Given such a way of analyzing the socialist economy, be it a socialist enterprise or the whole socialist society, the aims of production are value (profit) and use value. Social needs must be satisfied, as far as these two aspects are concerned.

Given a private-ownership commodity economy, commodity producers treat value and profit obtained as the aims of production. Due to private ownership, concern over use value does not become an implied production aim of producers. Use value receives attention only as a means of exchange. The production aims of a socialist enterprise as a commodity producer of course include profit obtained, so that the workers' monetary income can be increased. Given the relations between commodities and money, an increase in remuneration for labor is the basis for satisfying what is needed in life. On the other hand, public ownership of an enterprise's means of production determines that an enterprise must at the same time show concern over use value devoted to society, and concern over whether its products meet social needs. This is to say that public ownership enables a producer to show equal concern over use value, and value and profit--which all make up the aims of production. As far as this is concerned, just two points given below will make things clear:

1. Given public ownership of the means of production in a socialist enterprise, the production and operating activities of an enterprise through state plans incorporate both the pursuit of profit and the production of use value in social needs.
2. In considering use value, a socialist enterprise does not just pay attention to use value as a material factor responsible for value, but concentrates

on better serving social needs where a product is concerned. For example, some products--like those used out of blind faith or superstitious belief--can bring better profits, but as far as use value is concerned, they do not help in satisfying people's everyday needs. Under these circumstances, a socialist enterprise would rather have no profit and refuse to get involved with production. Of course, in normal circumstances, value and use value are synonymous and are at the same time the aims of socialist production.

What is needed in life represents unity between quantity and quality. To satisfy people's everyday needs, we must make overall efforts, as far as quantity and quality are concerned. Neglect of either of the two will affect the effort to satisfy people's everyday needs. Thus, to meet the demands of the aims of socialist production, two rules that must be followed in work have emerged. The first is that under normal circumstances, we must ensure an increase in monetary income for members of society. This is dictated by the call for quantity in meeting everyday needs and is realized through concern over value and an increase in profit. Another rule is that we must base production on needs and produce what the consumers need. This is dictated by the call for quality in meeting everyday needs and is realized through concern over use value and the production of products in larger quantities and of better quality. These two rules are interlinked and interact on each other. They are inseparable from each other.

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NATIONAL POLICY AND ISSUES

ECONOMIC DEVELOPMENT STRATEGY, MIGRATION POLICY

Beijing RENKOU YU JINGJI [POPULATION AND ECONOMICS] in Chinese No 1, 25 Feb 85  
pp 36-37

[Article by Huang Guochu [7806 0948 0443] of the Shanghai Municipal Party  
School: "Economic Development Strategy and Migration Policy"]

[Text] In order to realize China's strategic goals for economic development, not long ago, a few specialists and scholars proposed the "rely on the east and transfer toward the west" theory of relying on the economically advanced eastern coastal region and gradually developing in the northwest and southwest. "Transferring toward the west" certainly includes the transfer of funds and technology, but more importantly means the transfer of population and labor forces and means the rational distribution and full utilization of the human resources of each area. Historical experience has proved that if we stray from having a certain number of people of a certain quality, we will be unable to effectively give play to the role of any funds and technology. Thus, we must pay great attention to the migration of population and labor forces. Yet for a long time we have not paid enough attention at all to migration and the relevant policies. Today, it is extremely significant that we discuss China's economic and social development strategy and study and inquire into China's migration and the relevant policies.

Population migration or flow is an important social phenomenon of humans and is ultimately subject to the laws of productive forces and social development. Marx pointed out the decisive effect that large socialized production has on the flow of labor. He said: "Modern industry never considered the existent form of any production process as the ultimate form. "Modern industry, through machines, chemical processes and other methods causes the function of workers and the social integration of the labor process to continually follow the changes that occur in the technological base of production. This also causes changes to continually occur in the division of labor within society and continually causes much capital and many workers to be taken from one department and put into another department. Thus, the nature of large industry determines the changes in the variations and functions of labor and the over-all flow of workers" ("Complete Works of Marx and Engels," Vol 23, pp 533-534). The laws of productive forces and social development determine the migration and flow of population, and the migration and flow of population will also counteract the development of productive forces and society. Under the

circumstances of large cities having saturated populations and a short supply of employment, housing, transportation and energy, a major flow of the rural population into large cities can lower the productivity and level of well-being of large cities and intensify the contradictions of urbanization in China. At the same time, it can also cause a shortage of labor in the countryside. Under the circumstances of a surplus of labor in economically developed regions, insufficient labor in backward regions and being unable to tap resources in backward regions, a shift of a portion of the population from developed regions to backward regions both provides labor resources and brings advanced technology and thinking along with it. Thus, this not only can develop the production and raise the standard of living of backward regions but can also help in the further development of developed regions. Clearly, a rational and planned migration can promote the economic development of society and the improvement of the people's standard of living, and irrational and blind migration can have a detrimental effect on them. Thus, correctly drawing up a migration policy is extremely necessary for purposefully guiding migration.

Since the founding of the People's Republic, we have purposefully engaged in some migration work, such as the construction of third-line bases and sending youth to support the frontier. In addition, large-scale migration has occurred, such as sending youth up to the mountains and down to the countryside during the "Cultural Revolution." We must summarize and draw on these historical experiences and lessons and proceed from China's actual circumstances. Migration policy, which is an important component of China's population policies, must, over a fairly long period, regard changing the uneven distribution of population, promoting the rational deployment of productive forces, developing and using the natural resources of backward regions and realizing the strategic goals for economic and social development as a basic starting point. The basic substance of this policy includes the following few points:

1. The direction and key point of migration is the northwest and southwest regions which have low population density and backward economic development. We must advocate and encourage permanent migration to these regions and strive to develop all different types of temporary migration. We must strictly control the migration out of these areas and the migration into economically developed regions.

2. Based on the characteristics of most of China's population living in the countryside, we must pay a great deal of attention to migration between different rural areas, solve the problem of surplus labor in the countryside and send labor forces to backward rural areas in a planned and organized manner. With regard to organizational forms, private plots, private woods, privately owned livestock, etc, we must implement policies in backward rural areas that are more flexible than in other places and so ensure the effective development and use of land, ensure that the income of migrators and their families is higher than in their original residence and so encourage the permanent migration of the rural population to backward regions.

3. In cities and towns we must mobilize youth to support the frontier. We must further develop economic and technical cooperation between regions, adopt

an "advertising contract system," a "system of rotating at regular intervals" and other forms, draw up effective measures and cause scientific and technical personnel, cultural and educational personnel, medical personnel and skilled workers to temporarily move to backward regions. The original residences of temporary migrators will not be forfeited, and at the same time these people will enjoy full permanent resident status in the backward regions. This will encourage "intelligence to support the frontier."

4. On the basis on investigative research and comprehensive planning, step by step and in a planned way, we must move some factories that consume a great deal of energy from regions that are economically developed but have a short supply of energy resources to backward regions that have abundant energy and we must adopt preferential methods, such as providing high wages to the personnel who move along with the factories. Based on different resource conditions and natural conditions, when setting up key construction projects, the state must consider developing the processing industry of backward regions. Correspondingly, in a planned way the state must send the graduates of universities and polytechnic schools to these backward regions and give these graduates higher wages, better housing and other material benefits than are distributed in other regions.

5. In order to attract people to migrate to backward regions and stabilize the people that have already migrated, we must give priority to the housing, hospitals, stores, schools, public places of entertainment, transportation and other basic social facilities of backward regions. The state must also give financial support and guarantees.

Furthermore, level by level (central government, province, prefecture, county), we must also establish a specialized leading organization for migration that is responsible for programs, draws up migration plans, checks on migration work and the implementation of the relevant policies, promptly solves problems and difficulties that occur in migration work and ensures the smooth implementation of migration.

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NATIONAL POLICY AND ISSUES

BRIEFS

CHENGDU: FIRST-THIRD LINE COOPERATION--From 1 to 7 June, the State Council's office for Planning Readjustment and Transformation in Third-Line Construction held a preparatory meeting in Chengdu for talks on economic and technological cooperation between the first and third lines. The meeting was attended by responsible comrades of 14 provinces and 3 municipalities of the 1st-line and 3d-line regions, and of departments concerned including the State Planning Commission and the State Economics Commission. Sichuan Provincial CPC Committee Secretary Yang Rudai and Governor Jiang Minkuan extended greetings to the meeting. Lu Dadong, director of the State Council's third-line office, made a speech on the importance of integration of the first and third lines, the forms and contents of cooperation, and relevant policy issues in strengthening cooperation. Comrades from the provinces, municipalities, and autonomous regions in the first- and third-line regions introduced their local strong points, cooperation intentions, and preferential treatment conditions. They also had an extensive exchange on cooperation projects, discussed intentions and the mutual investigation visits scheduled for June and July, and studied relevant policy issues in strengthening cooperation. At present a number of cooperation projects of intention have been initially agreed on. [Text] [Changdu Sichuan Provincial Service in Mandarin 0030 GMT 8 Jun 85 HK]

CSO: 4006/675

PROVINCIAL AFFAIRS

SHANGHAI'S ECONOMIC REFORM, DEVELOPMENT OF COMMODITY ECONOMY

Shanghai SHIJIE JINGJI WENHUI [WORLD ECONOMY FORUM] in Chinese No 1, 5 Feb 85  
pp 28-32

[Article by Jiang Jiajun [5592 1367 0193]: "Reform of Economic Structure, Development of Commodity Economy in Shanghai Municipality"]

[Excerpts] Shanghai is the largest industrial-commercial city in China, and the Chang Jiang delta has long been the most flourishing area of China's commodity economy. Following the decision of the party Central Committee and the State Council to accelerate the utilization of foreign funds, the importation of advanced technology and the opening of the coastal cities, Shanghai is now facing a new task in the development of commodity production and exchange. This is necessary in accelerating socialist modernization and attaining the grand objective at the turn of the century as well as in overcoming our economic and technical backwardness, and continuing to raise the people's living conditions. Now the Shanghai Municipal Party Committee has advanced this strategic thought: stand firm in our own city, cooperate with the economic zones, rely on and serve the whole country, and orient to the Pacific Ocean and then the whole world. Guided by this strategy, we must carefully attend to Shanghai's economic reform in order to speedily develop the commodity economy of Shanghai and the Shanghai economic zones.

I

The state sector takes the lead among the many economic sectors. It provides the decisive conditions for ensuring that the collective sector will advance in the socialist direction and that the individual sector will also serve socialism. In Shanghai, the large key enterprises with a bearing on the national economy and the people's livelihood must be in the state sector of economy and under state management. However, it must be admitted that state-run enterprises, being relatively independent commodity producers, must reform the system of enterprise operation and management, set up and perfect various forms of the economic responsibility system, and adopt diversified and flexible forms of business operation. Some state-run enterprises, after approval, may even issue corporation debentures to raise funds while small industrial enterprises, small retail stores, catering and repair service enterprises originally belonging to the state sector can be converted to collective enterprises or be contracted or leased to workers collectively or



individually according to the circumstances. They will have to pay taxes to the state and assume responsibility for their own profits and losses under the new system.

Collective economy is an important component of socialist economy. The urban collective economy of Shanghai consists of large collectives, small collectives, intellectual youth cooperatives, and cooperative groups, and so forth. Whatever the form, in our opinion they must be operated according to the nature and special characteristics of the collective system under which there must be independent accounting, responsibility for their own profits and losses, and a close link between the results of production and business operation and the workers' benefits. The former irrational phenomenon of collective enterprises being compelled to pay lower wages and provide less welfare benefits than those of state-run enterprises must be changed. In the future, new collective enterprises will be able to issue stocks, and the workers holding stocks will be entitled to their bonuses in addition to their dividends. By this means, there will be incentive for the workers to work hard to improve production and management and to give full play to the superiority of the collective economy system.

Individual economy, as a necessary and useful supplement to the socialist system of public ownership, can help fill certain gaps and should be energetically developed. Some traditional catering, service and repair trades and small retail stores run by individuals, such as "husband and wife" stores in Shanghai, were found to be convenient for people's daily life and were much welcomed by the broad masses. These facilities should be restored, actively supported and developed according to state policies so that they can fill the gaps left by the system of public ownership.

In the course of being opened to the outside world, Shanghai, with its reputation as the city providing the best investment environment, has made full use of its favorable conditions in attracting foreign traders to develop joint ventures or wholly-owned foreign enterprises, mainly for the purpose of utilizing foreign funds, importing advanced technology, and accelerating China's socialist construction. At the same time, it can use foreign trade as a medium to develop our international market. There are now 10 joint ventures in Shanghai. This number is not large, but these joint ventures can produce profound effects. Running these enterprises well and summing up their experiences are undoubtedly of great significance in attracting more foreign funds.

## II

As the largest industrial-commercial city in the country, Shanghai plays a very important role in the national economy. This role is an important component of state planning. It is certainly necessary for planned economy to take the lead and for planned management to be strengthened so that all activities in the country can be well coordinated in an overall plan. However, the form and methods of planned management must be reformed, and management with over-rigid mandatory plans should be discontinued. The method of unified purchasing and unified distribution by the state formerly required by an underdeveloped

commodity economy and a supply shortage is obviously unsuitable for the present needs. We must appropriately reduce the scope of mandatory plans according to the instruction of the central authorities and permit the enterprises to sell their above-quota products themselves. Thus, while ensuring the fulfillment of state plans, these enterprises can plan for the production of their own commodities to meet the requirements of national construction and of the market. Apart from the mandatory plans, we should make more use of guiding plans so that with the help of such economic levers as taxation, price and credit, the enterprises can be guided in fulfilling their planned quota. Guiding plans must not only embody the requirements of state plans but also have greater flexibility. Shanghai did not do enough in the way of guiding plans in the past, but hereafter, along with the continued development of commodity production and exchange, the scope of guiding plans should be appropriately enlarged. These plans will then gradually become the main aid in management planning.

Shanghai's economy is oriented to three markets--international, national and local--all making numerous and intricate demands and undergoing constant changes. While upholding planned economy as our main concern, we must also pay attention to the subsidiary role of market regulation. If the law of value is necessary for the use of both mandatory and guiding plans, then market regulation means allowing the law of value to play its spontaneous role in regulating the production and circulation of commodities within certain limits according to the changes in supply and demand and in prices. Market regulation is a supplement to planned regulation in the planned economy for better coordination of production and demand. It is suitable not only for most collective and individual units but also for some state-run enterprises in production. In the process of being opened to the outside world, the number of joint ventures and wholly-owned foreign enterprises will continue to increase. Besides the control and guidance through economic policies and economic levers, the market regulation that is guided by planned economy will gradually become an important form of regulation.

If we want to do well in socialist national economy planning and management and to be really strict in controlling the major issues and flexible in handling the minor ones, we must reform the system of circulation. China's former circulation system was based primarily on the theory of production and distribution. The means of production were not recognized as commodities and therefore could only be purchased and distributed exclusively by the supply sector instead of being bought or sold on the market. Furthermore, because the output of the means of production did not satisfy demand, they could only be distributed according to plan or by rationing. This seal-off system of circulation with only a single channel and many intermediate links, combined with the mutual blockages of departments and regions seriously handicapped the development of commodity production and circulation. In the future, we must reform the circulation system on the basis of the commodity theory. We must clearly understand that the means of production, like the means of subsistence, are also commodities.

In our market transactions, we must generally observe the principle of exchange of equal value and appropriately readjust the originally irrational prices.

Within certain limits, the prices may be set by the enterprises themselves or through agreement between the parties representing supply and demand. The obstructions of different departments and regions must be lifted to permit the free circulation of commodities, and an open, multichannel system with fewer intermediate links should be established. Besides further strengthening its function as a market for the means of production, we should gradually build Shanghai into a large wholesale business center, set up regional markets for small commodities and agricultural sideline products, and continue to increase retail outlets in the urban and suburban areas. The establishment of a criss-cross circulation network extending to all parts of the country will promote the development of socialist commodity production.

Shanghai's foreign trade system should also be further reformed in its gradual process of opening to the outside world. On the premise of unified policies and unified action in dealing with foreign countries, we should gradually change the former system of unified procurement and marketing by the state into a foreign trade agency system. We can also combine foreign trade with industry and with technology in the forms of economic associations or joint ventures to bring about better coordination between industry and foreign trade and between production and circulation, and to arouse enthusiasm in various quarters to respond to changes in the international market. We should also continue to develop and update our export commodities so that Shanghai can play an even greater role in the development of China's foreign trade.

### III

Distribution of benefits is the most sensitive and essential problem in the economic system, since the development of commodity economy will inevitably create differences in material benefits among different production units. We must first protect state interests and then, through reform of the economic structure, correctly manage economic benefits among the state, the collective and the individuals. In the enterprises, we must conscientiously implement the principle of distribution according to work, reform the wage system and overcome egalitarianism. We must closely link the result of the enterprise's business operation with the material interests of the workers before we can fully arouse their enthusiasm and further develop the socialist commodity economy.

In the process of expanding enterprise decisionmaking power and adopting the system of economic responsibility in the past few years, Shanghai has upheld the principle of ensuring that the state gets the largest share, enterprises get the second largest, and individuals get the rest, with very good results. This year, following implementation of the second step of reform, changing from profit delivery to tax payment, the system of both taxation and profit delivery has been replaced by substitution of taxes for profits. By this means, the distribution relations between the state and the enterprises has been confirmed in the form of law. In addition to ensuring the steady growth of state revenue along with economic development, these relations will also enable the enterprises to obtain more benefits from their increased profits. Guided by the state's policy of planning, the enterprises will not only become relatively independent commodity producers with their own decisionmaking power in

production and business operations, but also economic entities that pay taxes according to law and assume responsibility for their profits and losses. The phenomenon of enterprises "eating from the same pot" of the state is thus completely eliminated, while the enterprises will be given not only more motive force but also more leverage to develop their commodity production and improve their business operations and management.

After the second step in the change from profit delivery to tax payment, and the basic solution of the problem of distribution between the state and the enterprises, the internal system of distribution in the enterprises must also be reformed. To prevent workers from "eating from the same pot" of the enterprises, different forms of the economic responsibility system should be introduced within the enterprises so that the workers will be remunerated according to their labor. The system of wages must be reformed to link the workers' remunerations more directly with the enterprises' economic results. To implement the principle of more pay for more work and less pay for less work, the enterprises can use different forms of wages, such as wages appropriate to particular jobs, piece-work wages, floating wages, subsidies appropriate to particular jobs, and so forth, under different conditions. As for bonuses for workers, the practice of "imposing no ceiling or lower limit" will be introduced. Egalitarianism in the payment of bonuses will be resolutely eliminated so that bonuses will truly become a reward for above-quota labor and will serve the purpose of encouraging the advanced, rewarding the diligent, and punishing the lazy. In reforming the enterprises' internal wage system, the method of linking wages to commodity prices may be considered to allow an increase in wages in proportion to price increases, to avoid reducing their standards of material life. At the same time, it will ensure a steady market for commodities. All these measures will help promote the development of socialist commodity production and exchange. The scope of our price subsidies has continued to expand in the past several years, and the subsidies which have continued to increase year after year have become a heavy financial burden to the state and a serious obstacle to reform of the economic structure. By linking wages with prices, we can create the conditions for relieving the state of this burden and accelerating the reform of our national economic structure.

#### IV

Reform of the economic structure is a major change in the system and the methods of national economic administration. We must solve the former problems resulting from the lack of separation between government and enterprise functions and the barriers between departments and regions in our economic administration system. We must reform the system of economic administration that is based on the administrative chain of command and the demarcation of administrative zones, and set up a new system under which we will take cities as centers and organize economic activities according to the innate laws of economic growth. This is an objective requirement for large-scale socialist production.

In the readjusted relationship between the central and the local governments, local authority in provinces and municipalities has been increased to varying

degrees according to different local conditions since the 3d Plenary Session of the 11th CPC Central Committee. To further implement the open-door policy and to make better use of Shanghai's role as a central city, we should suitably increase Shanghai administrative power over production, construction, technical transformation and financial administration so that it will be able to organize its economic activities and achieve an overall balance of production, supply and marketing in accordance with party policies by adapting measures to local conditions and to the times, to promote the development of commodity production and exchange.

Through reform of the economic administrative system in Shanghai, we should also break down departmental barriers, organize specialized companies and integrated companies along the lines of specialization and cooperation, and change the characteristics of some companies in such a way that they can be run as enterprises instead of administrative bodies. With the necessary readjustments and reorganization, we should form new specialized companies and develop new products. In addition to the companies specializing in certain products, we should also develop companies specializing in spare parts and accessories or in certain work processes, and form integrated companies for the comprehensive utilization of resources, like the Gaoqiao Petrochemical Industry Integrated Company. Shanghai must also continue to break down the barriers between different trades and systems of ownership and organize new integrated economic entities, such as joint industrial-agricultural enterprises, joint state and collective enterprises, integrated agriculture-industry-commercial companies, and integrated industry-commerce, or industry-foreign trade companies. In line with the principle of separation between government administration and enterprise management, these specialized or integrated companies should operate as relatively independent commodity producers and economic entities with independent accounting and responsibility for profits and losses. Government departments should not interfere with the enterprises' day-to-day activities in production and business operations; their main concerns should be the execution of law, the planning for different trades and zones, and the urban public utilities. Between the government and the enterprises, some organizations such as trade associations, consulting companies, service companies and so forth can be formed as special trades for coordinating activities and providing facilities for commodity production and circulation.

Shanghai's commodity economy is oriented not only to the Shanghai market but also to the markets in various parts of China and the much larger international market. In further implementing the open-door policy, Shanghai should on the one hand have a firm foothold in the local market, and, on the other hand, strengthen its economic ties with various parts of the country, particularly with its neighboring provinces Jiangsu, Zhejiang and Anhui, so that it can play its role as a central city and a port city in the production and exchange of commodities. The State Council has decided to establish a Shanghai economic zone with Shanghai as the core and including Jiangsu, Zhejiang, Anhui and Jiangxi. This is an important attempt to breakdown the old economic administration system and to build a new one in its place. This type of economic administration system will have a central city as its main support, small towns as the intermediate links, and the countryside as its base. There

will be division of specialized work and close cooperation as well as the combinations of departments and regions, industry and agriculture, urban and rural areas, and production and demand in the economic zone. This large Shanghai economic zone will include a number of small and medium-size economic zones of different levels, different sizes and different categories. For example, medium-size cities like Suzhou and Ningbo can be joined by the surrounding counties to form a medium-size economic zone, while the small cities and towns like Wujiang and Yuyao can become the centers of small economic zones.

As the central city in the economic zone Shanghai must fully utilize its favorable conditions, such as its developed industry and commerce and its advanced technology, and play a suitable role in its economic contacts with various inland provinces and in its import-export trade with the Pacific Region and various countries. It should become not only the industrial base of the economic zone and the center of domestic and foreign trade, but also the pivot of communications and transportation of this region and the center of culture, education, science, technology, finance and information. Through this open, multifunctional and modern socialist central city, we can organize the economic zones of various levels, sizes and types to form a complex, rational and integrated economic network according to the objective economic law and the innate relations of economic development. This will be highly significant to the establishment of a socialist economic structure with Chinese characteristics.

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## ECONOMIC DEVELOPMENT ZONES

### STATE COUNCIL DECISION TO OPEN THREE DELTA ZONES DISCUSSED

Beijing LIAOWANG [OUTLOOK] in Chinese No 8, 25 Feb 85 pp 9-11

[Article by Chen Tanqiang [7115 6151 1730]: "New Pattern in China's Opening Up; Notes from State Council Symposium"]

[Text] China has adopted a new measure in its reform and opening: the State Council convened a symposium from 25 to 31 January in Beijing on the Chang Jiang and Zhu Jiang river deltas and the Xiamen-Zhangzhou-Quangzhou delta zone in southern Fujian. The council recommended making these "three deltas" open coastal economic zones.

On the first day of the symposium, 25 January, State Council member Gu Mu gave direction to the symposium in a speech in Zhongnanhai. State Council Premier Zhao Ziyang gave an important speech on the final day of the symposium, 31 January.

During the symposium, responsible comrades from the four provinces and one municipality in which the "three deltas" are located deeply pondered the strategic significance, policy measures, how to strengthen administration after the zones are established, and other questions regarding making the "three deltas" open coastal economic zones. They included Gu Xiulian [7357 4423 5571], governor of Jiangsu; Wu Minda [0702 2404 6671], vice governor of Zhejiang; Hu Ping [5170 1626], governor of Fujian; Liang Lingguang [2733 7227 0342], governor of Guangdong; and Li Zhaoji [2621 5128 1015], vice mayor of Shanghai, as well as responsible comrades from various committees of the central government.

#### I. Opening to the Outside Is Substantial

Zhao Ziyang's speech centered around one major theme: reform and opening. He emphasized the unanimous theses of the major central government leaders:

The way to reform and opening is through the establishment of socialism with Chinese characteristics;

China's four modernizations must rely on reform first and opening second.

In his speech Zhao Ziyang analyzed the inherent relationship between reform and opening.

This was enlightening; the essentials follow.

--Reform and opening are inseparable. Opening is reforming, one might say a large reform.

--China's reform revolves around opening (including both domestic and foreign opening) and it revolves around the development of a planned socialist commodity economy.

--Reform is a transformation of the former "closed style" economy to an "open style" economy. It is a change from domestic isolation to domestic opening and a change from being blockaded to being open to the outside world.

## II. A New Pattern in the Economic and Social Development Strategy

The speeches by Zhao Ziyang and Gu Mu regarding the strategic plan for China's economic construction left strong impressions.

China's coastal and inland areas are very different in terms of natural conditions, economic bases and levels of development. The natural environment in the coastal areas is superior, land and water transportation is quite convenient, the industrial bases are rather strong, the commodity economy is relatively developed, and the areas occupy decisive positions in the construction of socialist modernization nationwide. Inland areas offer the advantages of vast territory and relatively abundant natural resources, so development prospects are good. The correct handling of the relationship between the coastal and inland areas is an important strategic question for China's economic and social development. Comrade Mao Zedong studied this question in the 1950's. He made a special discussion of it in the essay, "On the 10 Great Relationships."

Nevertheless, for quite a while since the country was founded, although the coastal areas did develop, their economy was not as successful as it should have been because of many international and domestic factors. Because important changes have occurred internationally and domestically, we should not lose the chance of making construction of the coastal areas into a key national policy. We should further relax policies, enliven the economy more, energetically develop foreign economic activities, utilize the good factors for reform and opening, fully develop the superiority of these areas, and accelerate the pace of construction.

The development of the open coastal economic zones is a new way to strengthen the economic construction of the areas. We must make full use of the superiorities of these areas and allow them to be civilized, rich and populous, open and modernized areas in the forefront of construction of the state that are integrated domestically and internationally, with an integrated industry and agriculture, and interaction between city and countryside.

China's open policy will then take the form of having several different layers.



--One layer is the July 1979 decision to make Shenzhen, Zhuhai, Shantou and Xiamen the four pilot special economic zones [SEZ].

--Another layer is the April 1984 decision to further open the 14 coastal cities of Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang, Beihai, and Hainan Island.

--The new layer is the development of the three open coastal economic delta zones of the Chang Jiang and Zhu Jiang river deltas and the Xia-Zhang-Quan delta area in southern Fujian Province.

### III. "Three Small Deltas" First, "Three Large Deltas" Later

How will these three coastal economic zones be opened? Gu Mu made a precise and appropriate explanation during his speech at the symposium: go from small to large, have "three small deltas" first and "three large deltas" later, and fan out from points to areas.

The points are the 11 cities of Suzhou, Wuxi, Changzhou, Changshu, Jiaxing, Huzhou, Quanzhou, Zhangzhou, Foshan, Jiangmen and Zhongshan, and the several score key developed exporting counties and urban areas or the approved key industrial satellite towns.

The areas are the cities, counties and villages within the open areas as well as agricultural commodity production bases, primary processing plants for agricultural goods, and projects that have the development of exports as their goal, or agricultural and technological introduction projects that utilize foreign funds.

"Four benefits" will appear from this:

--The benefit of a rational rural construction arrangement. Once construction gets underway we must be particular about environmental protection;

--The benefit of a concentration of human, material and financial resources to accelerate the construction of the infrastructure and provide a good environment for investment,

--The benefit of administering foreign business investments and guaranteeing rational profits,

--The benefit of a gradual accumulation of experience by actively and reliably doing the various jobs involved in reform and opening.

### IV. The Heart of the Policy

In his speech Gu Mu said that the three "delta" open coastal economic zones "basically will be administered according to the operational policies of the 14 open coastal cities." Some readers may be very concerned about

this and others may not understand it very well, especially foreign businessmen who invest in enterprises within the zones (including compatriots from Hong Kong, Macao, and Taiwan, overseas Chinese and foreign businessmen) who do not fully understand the kinds of preferential treatment.

Several proposals were made at the symposium with reference to specific preferential policies about reducing or avoiding taxes but it would be premature to disclose them prior to formal approval. Yet it would be easy to know one aspect or another from the report Gu Mu made on 17 January to the Ninth Session of the Standing Committee of the Sixth NPC. In his report Gu said that with the State Council's approval on 15 November 1984, Sino-foreign joint and cooperative ventures and foreign-owned ventures in the newly opened 14 open coastal cities would be given a trial run with a 20 percent discount on income taxes.

According to the report, questions concerning "implementation" can be "referred" to the examples of the 14 coastal cities. In addition, those responsible in the departments concerned in the State Council mentioned various other preferential treatments in response to questions regarding the opening of the 14 coastal cities posed by a reporter from XINHUA SHE on 12 July 1984:

--All technology- or knowledge-intensive projects, or projects involving an investment of more than \$30 million by foreign businessmen for Sino-foreign joint or cooperative ventures or foreign-owned productive enterprises can have a reduction of 15 percent of their income tax with the approval of the Ministry of Finance.

--The production and management equipment and construction material imported as an investment by foreign businessmen; the raw materials, parts, spare parts, and packaging material imported for the production of export commodities, the imported personal communications tools and office goods; the imported household goods and personal communications tools of the foreign investor and overseas technical personnel (limited to a reasonable amount) in Sino-foreign joint or cooperative ventures, or foreign-owned ventures are all exempt from customs duties and the consolidated industrial and commercial import tax.

--Exported goods (excluding those restricted by the state) from Sino-foreign joint and cooperative ventures or foreign-owned enterprises are exempt from export customs duties and the industrial portion of the consolidated industrial and commercial tax.

--A proportion of the goods from any of the above categories of enterprises that really provide advanced techniques and production technology and equipment can be sold on the domestic market.

## V. Gradual Promotion in Layers and Waves

The various kinds of preferential treatment given to foreign investors in the open coastal economic zones listed above that can be "referred to" for

"implementation" are an important aspect of the policies and measures recommended for adoption by this symposium. Another important aspect is the appropriate expansion of the authority of cities, counties and enterprises in these zones.

The appropriate expansion of authority refers to strengthening the inherent power and vigor of the cities, counties and enterprises within the open scope to utilize foreign funds, import technology and develop foreign trade; to improving the ability to meet emergencies and the adaptability of foreign economic cooperation and contacts; and to strengthening business management and administrative supervision abilities once the areas are open to the outside.

The pace of reform can be speeded up, the economic policies can be enlivened, and more sectors of the market can be readjusted.

The open coastal economic zones are bridges to China's foreign economic contacts. They are also import and export bases as well as pivots for foreign imports and domestic coordination. Therefore for China's economic construction they occupy a position of radiating between the inland and abroad.

Through the SEZ's, open coastal cities and economic zones, if we are choosy, filter, develop what is healthy and discard what is not and blaze new development trails when importing advanced foreign science, technology and the advanced management methods needed by modernized and socialized production, then we can transplant this to the inland in a better way.

China's economic reform will also go via the SEZ's--the open coastal cities and economic zones--to the inland via many layers of exploration and practice. The reform will gradually proceed inland in layers and waves from the coast.

In this way, by uniting foreign imports and domestic integration, and by uniting the development of the coast and the opening of the inland, we can bring about unity and cooperation between these two areas in economic, technical and other terms. We can develop new scope and new depth and thus promote the economic construction and social development of the inland, and promote the vigorous development and rise of the entire state economy.

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CSO: 4006/599

AGGREGATE ECONOMIC DATA

AFP REPORTS PRC'S FIRST QUARTER ECONOMIC FIGURES

HK230857 Hong Kong AFP in English 0843 GMT 23 May 85

[Article by Michel Houx]

[Text] Beijing, May 23 (AFP)--China's industrial output ahead by a record 23.39 percent in the first quarter of this year, but Western analysts said the economy was overcharged and that bottlenecks would slow it down.

Industrial production reached 190.5 billion yuan (67.3 billion dollars), a 23.39 increase over the first quarter of last year, while energy output grew only 11 percent, still unpublished figures from the Statistics Bureau show.

Western experts said energy output increased in absolute terms more than in previous years, but not enough to unblock the energy bottleneck that dogs the Chinese economy.

Increase in energy output is falling behind the rise in industrial production, the figures show.

They also show that light industrial production, with an increase of 25.8 percent, performed better than heavy industry, where output grew 20.8 percent. Heavy industry had for years been given greater priority.

Western analysts said it would be difficult for China to maintain the first quarter's industrial output growth because of persistent bottlenecks in the economy. As well as a lack of energy, there were shortages of raw materials, transport, and communications facilities.

Oil production rose 11.1 percent, coal 11.7 percent and electricity 10.9 percent.

Foreign trade in the first quarter registered a deficit of more than three billion yuan (one billion dollars), the figures show.

The imbalance, with imports growing 58.4 percent and exports dropping by 0.79 percent, confirmed last year's trend.

The trade deficit for the whole of last year was four billion yuan (1.3 billion dollars), with 62.06 billion yuan (21.7 billion dollars) in imports--a

24.7 percent jump--and 58.06 billion yuan (20.30 billion dollars) in exports--a rise of 14.6 percent.

But in the first quarter of 1984, exports at 5.76 billion yuan (two billion dollars) were slightly up on imports, valued at 5.51 billion yuan (1.9 billion dollars), increases of 25.8 percent and 20.3 percent respectively.

Figures on price increases introduced in the first three months of this year were not available, the office said.

Western analysts said the figures reflect an overcharging of the economy at the end of last year, against which the government has announced a series of corrective measures.

They noted that industrial growth is targeted to grow only eight percent in the whole of 1985, but added that targets are often kept deliberately low so that spectacular results, way ahead of what was forecast, can later be claimed.

Industrial growth last year was 14 percent, though only five percent was targeted. Agricultural output rose 14 percent, against a four percent forecast.

Three Chinese economists recently sounded an alarm in the PEOPLE'S DAILY. A long article by-lined Wu Jinglian, Ding Ningning and Li Liange stressed that imbalance could get worse.

"If we continue to pursue growth at the present exaggerated pace, imbalances will become more obvious," they wrote about the bottlenecks.

In a report in March to the National People's Congress, China's parliament, Premier Zhao Ziyang announced a package to cool the economy.

In particular he stressed a tightening of credit control to reduce the growth of money supply and incomes.

He also announced a drastic reduction in government spending.

This would reduce the budget deficit, which in 1984 was five billion yuan (1.76 billion dollars), to three billion yuan (one billion dollars) in 1985.

CSO: 4020/232

ECONOMIC MANAGEMENT

ECONOMIC, TRADE PERSONNEL ATTEND HONG KONG SEMINAR

OW080801 Beijing XINHUA Domestic Service in Chinese 0135 GMT 7 Jun 85

[Excerpts] Hong Kong, 7 Jun (XINHUA)--Special Column: "Glimpses of Hong Kong and Macao"

Your Economic and Trade Personnel From China Take Refresher Courses at the "Seminar on Hong Kong Industry and Commerce"

The fourth "Seminar on Hong Kong Industry and Commerce," sponsored by Hong Kong's Chinese General Chamber of Commerce, opened recently. Most of its 40 students are young economic and trade personnel from the 14 open cities, Hainandao, and 4 research units.

Presiding over the opening ceremony, Zhang Yongzhen, chairman of the training committee of Hong Kong's Chinese General Chamber of Commerce said: Hong Kong has attracted the people's attention, because of its fairly rapid economic development. Hong Kong has entered a new period since the exchange of the ratified Sino-British agreement. Our friends in economic circles in the motherland want to understand Hong Kong. Similarly, Hong Kong's entrepreneurs, economists, and the researchers concerned earnestly hope to improve their understanding of the hinterland. This mutual understanding is necessary and beneficial to promoting Hong Kong's stability and prosperity.

To keep pace with the motherland's four modernizations drive, since 1982, Hong Kong's Chinese General Chamber of Commerce has annually sponsored seminars in Hong Kong for personnel of some provinces, municipalities, and special economic zones, who are engaged in economic research and foreign trade. With the support of professors and scholars from Hong Kong's colleges and universities, government departments, social organizations, industrial and commercial enterprises, and friendly personages in all circles, students at the seminar have been able to directly understand the basics of Hong Kong's industry and commerce, after attending lectures and making visits during the 2-month refresher course. This method has yielded good results.

Hong Kong's Electronic Industry Grows by 23 Percent in 5 Years

Hong Kong's electronics industry has developed rapidly. It has grown by 23 percent in the past 5 years.

In 1984, the export volume of Hong Kong's electronic components totaled HK \$31 billion, accounting for 23 percent of Hong Kong's total export volume. Britain was still the major purchaser, buying 47 percent of the electronic components exported by Hong Kong. The total value of electronic products and components shipped to China's hinterland was about HK \$30 billion, topping 1983 by 216 percent.

CSO: 4006/676

28 June 1985

## ECONOMIC MANAGEMENT

## BRIEFS

BEIJING INDUSTRIAL LAWYERS--Beijing, 19 Apr (XINHUA)--Corporations, factories, and other enterprises in Beijing are now hiring lawyers to handle cases mainly concerning disputes about purchases, sales and technology transfers, a municipal official said today. Yu Beiping of the Municipal Judicial Bureau said 553 units have engaged lawyers to represent them. The Beijing Urban Development Corporation was the first to hire lawyers. In 1980, it ran into trouble trying to relocate residents living on a construction site about to be developed. With the lawyers' help, the disputes were finally settled. In 1983, 39 enterprises engaged lawyers. In 1984, that number increased to 415 and they handled 300 lawsuits. There are now 780 lawyers who are the members of the Beijing Bar Association which was established in 1982. [Text] [Beijing XINHUA in English 1130 GMT 19 Apr 85 OW]

CSO: 4020/232



FINANCE AND BANKING

BANK OF CHINA UNDERTAKES FIRST EUROPEAN BOND ISSUE

HK040943 Beijing ZHONGGUO XINWEN SHE in Chinese 1448 GMT 3 Jun 85

[Text] Beijing, 3 Jun (XHONGGUO XINWEN SHE)--Today's GUOJI SHANGBAO reports that recently the Bank of China signed an agreement with 10 banks from seven countries in Frankfurt, West Germany. The agreement concerns the Bank of China issuing bonds worth 150 million marks. The Deutschebank of West Germany, which will be in charge of the issue, and nine banks and stock companies of seven countries will jointly issue the bonds.

The annual interest of the bonds issued by the Bank of China will be 7 percent, the term is 7 years, and the principal plus interest will be paid back on 5 June 1992.

This is the first time the Bank of China has entered the European capital market, which is also an indication that the Bank of China has become more enthusiastic over entering the international capital markets.

Li Yumin, vice president of the Bank of China and leader of the Bank of China delegation, said that since the news that the Bank of China will issue deutsche-mark bonds in West Germany has spread, many banks and stock companies have applied to participate in the issuing group and subscribing group. The issuing work has been going smoothly. He also said that the purpose of the Bank of China in issuing bonds in foreign countries is to collect foreign exchange in various ways for the realization of the four modernizations.

CSO: 4006/676

FINANCE AND BANKING

COST MANAGEMENT SYSTEM MUST BE REFORMED

Beijing CAIWU YU KUALIJI [FINANCE AND ACCOUNTING] in Chinese No 3, 20 Mar 85  
pp 34-35

[Article by Gu Liang [6253 5328] and Yi Bin [0001 2430]: "Cost Management System Must Be Reformed"]

[Text] The fifth symposium on theories convened by the Chinese Cost Research Association was held in Beijing in the latter part of December 1984. Representatives from all areas throughout the nation met to engage in a spirited discussion of the central problem concerning the reform of the existing cost management system in our nation under the guidelines provided by "The Decision Made By the CPC Central Committee to Reform the Economic System." During the discussion, emphasis was placed on the three following problems:

I. How To Reform the Cost Management System

Many comrades who engaged in a serious discussion of the problem expressed the following views:

1. To reform the cost management system, it is necessary to gain the upper hand in a competitive situation, to develop production and to achieve the highest economic effectiveness by using the least possible amount of labor and materials by acquiring a correct concept in breaking through the bonds imposed by traditional ideas and the clear understanding that the basic purpose of cost management is the steady improvement of the production and operations management system of the enterprises.
2. The reform of the cost management system requires three basic changes: First, the purely microcosmic cost management system must be replaced by a system which calls for both micro- and macrocosmic cost management. Second, instead of learning from and exercising control over what has already taken place, we must stress the importance of making forecasts and correct decisions and of exercising control over the entire process. Third, the management of cost from purely the financial and accounting points of view must be replaced by the management of cost on an overall basis that takes into account production operations and their technological and economic ramifications.
3. Cost management calls for the avoidance of arbitrary uniformity and unchanging patterns. The enterprises must be given a free hand in devising different forms and methods of management according to various objective demands and conditions.

4. We must forego and avoid the wholesale adoption of foreign cost management theories and practices without regard to specific situations. We must attach importance to the summation of our own experiences and take a leaf from and digest the advanced management techniques from foreign countries in deriving the theories and methods of cost management with special Chinese features.

## II. Relationship Between the Reform of the Cost Accounting System and the Cost Management System

To reform the cost management system, we must first reform the cost accounting system. According to some comrades, the major defect of our existing cost accounting system lies in the unitary nature of accounting, the inflexibility of the methods of accounting, the fact that attention is not being paid to details which should be attended to and that what should be simplified is not being simplified, the lack of close coordination between the enterprises and the management of production operations and the failure to implement the economic responsibility system.

Many suggestions were advanced by the comrades participating in the discussion as to how to reform the cost accounting system. Comrade Yang Jiwan [2799 4764 3834], vice chairman of the Chinese Cost Research Association and director of the accounting department of the Ministry of Finance, offered his opinions on five aspects of cost accounting. 1) The book cost, otherwise known as legal cost, institutional cost or financial cost, That is the real cost of commodities derived from the stipulations of the state financial system in accordance with the substance, procedures and methods of the legal provisions. 2) Theoretical cost derived strictly from the objective factor of cost (C+V), the cost of which has been readjusted to reflect the true cost of a commodity. The purpose of ascertaining the theoretical cost is to find out accurately the level of consumption of materialized and live labor for each product to serve as a scientific basis for determining the prices of commodities and the formulation of macroscopic policies. 3) The responsibility cost, that is, the cost derived from the cost of consumption and expenditure incurred by those in the fulfillment of their responsibilities in accordance with the economic responsibility system adopted by the enterprises themselves. 4) The analytical cost, that is, the revised cost derived from the projected cost and the cost determined by the enterprises following an analysis of the actual cost. The purpose of finding the analytical cost is to deal with cost management more effectively and to reduce the cost of commodities. 5) The social cost, which in reality is the comparative cost of commodities within the entire society.

It was also pointed out by some comrades that cost accounting reforms should be extended to the areas of economic responsibility, operational policymaking and matters of a technological and economic nature. They expressed the opinion that while effort should continue to be made to improve and to bring about the necessary reforms of the cost accounting of commodities, steps should also be taken to develop responsibility cost accounting, operational cost accounting and technical cost accounting and that the extensive adoption of a more effective overall cost management system would serve to break through the traditional concept of cost accounting.

The view was expressed by some comrades that the crux of the work of cost accounting lay in strengthening the work of financial and management cost accounting, that responsibility cost and analytical cost were related to management cost and that the theoretical cost and social cost accounting served little purpose. The suggestion was also made by some comrades that cost accounting had mainly to do with book cost, that the other costs could be obtained by dissecting and breaking down the book cost from different points of view and that such a method would facilitate cost management and simplify the work of accounting. Still other comrades favored the adoption of the manufacturing cost method, that is, the breaking down of the cost into two major parts, namely, the manufacturing cost (including materials and wages) and operational management expenses (including the cost of developing new products, the cost of management and the cost of marketing). It was their opinion that this method of cost accounting was simple, that it would establish closer coordination with the economic responsibility system and that the acceptance of the gross profit concept would facilitate the making of forecasts and policies.

### III. The Problem of Establishing a Responsibility Cost System

At the present time, the central problem of reforming the economic system in the cities lies in the solution of the two "eating out of the same big pot" problems. Thus, it is necessary to establish a link between cost management and the economic responsibility system, to set up a cost responsibility system, to make the responsible units accountable for keeping costs down to the projected level so that the various units at different levels within the enterprises as well as their entire staffs may become more cost-conscious and that everybody concerned may do his part in cutting costs down.

Still other comrades expressed the opinion that the responsibility cost system also calls for the solution of the "double-track" problem posed by responsibility cost accounting and production cost accounting.

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CSO: 4006/579

## FINANCE AND BANKING

### PEOPLE'S BANK: LOAN CONTROL, ADJUSTMENT

Beijing ZHONGGUO JINRONG [CHINA'S FINANCE] in Chinese No 4, 4 Apr 85 pp 13-14

[Article by Lu Zonghai [7627 1350 3189], Financial Research Department, Guangxi Zhuang Autonomous Region Branch of the People's Bank: "People's Bank Loan Control and Adjustment"]

[Text] Since the assumption of the specific functions of a central bank by the People's Bank, the setup of Chinese banks has undergone vast changes in the four following areas: First, the People's Bank has become an integral part of the State Council and "a state organization managing the financial matters of the nation under the guidance of the State Council." Specialized banks have become economic entities engaged in credit operations under the guidance of the People's Bank and a part of the financial system in which they have assumed major responsibility for engaging in banking operations with other financial institutions serving in a subsidiary capacity, thus implementing the principle of separating politics from the enterprises in the process of reforming the economic management system in our nation. Second, "the branches and subbranches of the People's Bank are in principle set up according to economic districts" in order "to adjust credit loan funds and the circulation of currency within their respective jurisdictions," thus altering the old practice of setting up offices strictly according to administrative divisions and redressing the error of establishing setups vertically and horizontally under the central and local authorities according to the original organizational system. Third, the People's Bank is "to coordinate, direct, supervise and check up on the financial operations of the specialized banks and other financial institutions" and, in the management of funds, to adopt the system of "centralizing planning, apportioning of funds, keeping a record of the amounts of loans and deposits and accommodating one another." The People's Bank is to exercise strict control over credit funds and to do away with the practice by the specialized banks of decentralizing the management and expenditure of funds. Fourth, the utilization of bank credit funds, whether in the making of loans from a higher level for use by a lower level or in the making of loans from a lower level for use by a higher level, is to be handled between the People's Bank and the specialized banks. The quota set up in the past was only an imaginary figure while the funds now allocated are real amounts. The various branch banks, having become centers for the handling of funds and having made a start in altering their function as leadership organizations concerned merely with the setting up of quotas and not money matters, must now handle the management of funds. The

four changes that have taken place, representing as they do the first in our banking management system in over 30 years, are changes of a historical nature which are bound to have a profound effect on the management of the operations of our financial institutions.

The heart of the matter concerning the reform of the banking system is the adoption of the central banking system. As a central bank, the People's Bank must "focus its attention on research, carry out the nation's macroeconomic financial policy decisions, strengthen its control over credit loan funds and maintain the stability of the currency." The three most basic functions of the People's Bank may be stated separately. First, the People's Bank must fulfil its responsibility of studying and implementing the macroeconomic financial policy decisions of the state. The head office of the People's Bank must participate in the making of macroeconomic policy decisions by the State Council while the branches must take part in the making of macroeconomic policy decisions by the economic districts or provinces (regions) where they are located. That is the line of demarcation between the People's Bank and the specialized banks. While the making of macroeconomic policy decisions is a responsibility that should fall mainly on the shoulders of the People's Bank, it does not mean that the other banks are not required to carry out in a creditable manner the macroeconomic financial policy decisions. There is a division of labor in that it is the major function of the specialized banks to engage in research and to carry out the macroeconomic financial policy decisions within their specific areas while it is the function of the People's Bank to engage in research and to implement macroeconomic financial policy decisions in the entire area. Second, the management of credit loan funds must be strengthened. That is the chief means by which the People's Bank exercises its leadership and control over the financial institutions of the nation by coordinating, directing, checking up on and supervising the operations of the specialized banks. Unless the People's Bank is capable of strengthening its control over credit loan funds, all the talk about leadership and control would have no meaning. Third, the stability of the currency must be maintained. That is the basic reason for reforming the banking system and the specific purpose for the People's Bank to exercise control over credit loan funds. With the setting up of central banks, attention must be focused on the strengthening of control over funds and on stabilizing the currency. That is a matter of special importance insofar as the branches and subbranches of the People's Bank are concerned.

With a view to strengthening control over credit loan funds, the board of directors of the People's Bank, having decided at its third meeting to reform the credit loan management system, has drawn up the "Temporary Provisions for the Control of Credit Loan Funds." According to these provisions, the People's Bank must exercise strict control over funds while dealing with the adjustment of funds in a flexible manner. The exercise of control and the adjustment of funds represent the two wings of fund management. On the one hand, the lack of strict control leads to an excessive outflow of cash and issuance of paper money which in turn make it difficult to maintain the stability of the currency. On the other, the failure to make adjustments in a flexible manner would lead to stifling control over funds, deprive the specialized banks of freedom of action, reduce the effectiveness of fund usage and defeat the purpose of reforming the credit loan management system.

How should the People's Bank exercise its control over credit loan funds? According to the "Temporary Provisions," control should be exercised over the four following areas:

1. Control over planning. The planned receipt and expenditure of credit loan funds of the various specialized banks must be incorporated into the overall credit loan plan of the People's Bank. On the basis of the overall credit loan plan of the state approved by the State Council, the People's Bank is to appraise and approve the plan for credit loan receipts and expenditures of the specialized banks, including their plan for itemized receipts and expenditures and for the application for loans from the People's Bank. If the specialized banks should lack sufficient funds to meet their needs or if funds are temporarily needed for the procurement of subsidiary agricultural products during the peak season, they may apply for temporary loans from the local People's Bank with the understanding that they are to be repaid on time. Thus, the movement of funds by the specialized banks may be put under proper management and control at the planning stage.

2. Control over the source of funds. According to the "Temporary Provisions," the sources of credit loan funds throughout the nation are to be divided into two major categories. First, the People's Bank is to handle deposits of a financial nature, including deposits into the national treasury, deposits outside the budget, deposits made by the armed forces, deposits for capital construction projects and deposits made by groups and organizations. Although funds of this nature are registered in the account books of the specialized banks, they have no authority to make use of such funds but must apply for loans from the People's Bank. Second are the deposits taken in by the specialized banks, including the savings of the enterprises, the cities and towns and the deposits of the agricultural and other enterprises. The specialized banks are required to put 10 percent of such deposits into the People's Bank (this ratio is subject to adjustment). According to this provision, some 40 percent of all the deposits would be placed under the control of the People's Bank. Since the source of funds is under its control, the People's Bank is in an even better position to exercise control over the specialized banks.

3. Control over the use of funds. The "Temporary Provisions" stipulate that in dealing with the movement of funds, the specialized banks and the People's Bank are to make actual loans and deposits. In other words, the specialized branch bank, upon being notified by a higher authority to extend a loan, is to borrow funds from a branch of the People's Bank and to allocate the amount to the bank under its jurisdiction at the basic level as its operating funds and the amount is to be deposited in the local People's Bank before being used. In this manner, the specialized banks can no longer eat out of the same big pot at the expense of the banks in the entire nation and the People's Bank can exercise control over the specialized banks by holding the pursestrings.

4. The various banks are to establish a system to avoid the scrambling for funds among themselves so that better control may be exercised over a more effective use of the funds.

It may be seen from the above provisions that tight control can be exercised by the People's Bank over the funds of the specialized banks. Only the Bank of Agriculture, which has a credit cooperative, has a certain latitude in the control of funds. At a time when the nation is still operating under financial difficulties, it is imperative to centralize the available funds and to exercise strict control over credit loan funds to ensure the smooth progress of the key construction projects. After credit loan funds have been put under control, it is also necessary to make adjustments in a flexible manner if the expected results are to be achieved. The first reason is that our credit loan fund control system is still based on planned control. At the present stage, the plan is based only on broad outlines and therefore remains flexible. The plan is by no means foolproof and the situation is subject to change so that it often happens that some banks may have a surplus while others may have a shortage of funds. The second reason is that the receipt and expenditure of credit loan funds are seasonal in nature not only in agriculture but also in the industrial and commercial sectors. Thus, it is necessary to adjust credit loan funds between and among the various banks.

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CSO: 4006/579



FINANCE AND BANKING

BRIEFS

FOREIGN CURRENCY ACCOUNTS ALLOWED--The Shanghai Branch of the Bank of China has begun this year to allow free deposits and withdrawals from foreign currencies savings accounts. All those who have remitted foreign currency exchange, who hold foreign currency, negotiable checks and notes can open a foreign currency savings account at the Shanghai Bank of China, and they can remit foreign currency overseas and withdraw a certain amount of foreign currency. This was announced by the vice president of the Shanghai Branch of the Bank of China, Shi Meirao [0670 5019 7437], at today's Chinese New Year's tea party for dependents of foreign nationals. [Text] [Guangzhou NANFANG RIBAO in Chinese 5 Feb 85 p 3] 9296

CSO: 4006/397

## INDUSTRY

### UNHEALTHY PRACTICES IN INDUSTRY, COMMERCE IDENTIFIED

Beijing LIAOWANG [OUTLOOK] in Chinese No 15, 15 Apr 85 pp 16-17

[Article: "Life Requires Management, Management Is for Life; A Visit to Ren Zhonglin, Director General of the State Industry and Commerce Administration"]

[Text] Reporters recently visited the director general of the State Industry and Commerce Administration, Comrade Ren Zhonglin [0117 0022 2651], and asked him to talk about how to strengthen state industry and commerce administration regulations and promote reform now under the new situation.

Comrade Ren Zhonglin said that the State Industry and Commerce Administration is one of the government's economic enforcement organs. Its chief responsibilities are to execute thoroughly the economic policies, laws and directives of the party and the state, and to supervise the administrative control of industrial and commercial enterprises, protect rational management, suppress illegal management, preserve socialist economic order, guarantee the state plan, promote production, enliven circulation and enrich the economy. Premier Zhao Ziyang has said: "Departments of the State Industry and Commerce Administration exercise their functions and powers according to the law. No department should obstruct or meddle with their work." Vice Premier Tian Jiyun has said: "Life requires management, management requires methods. Although there are laws to abide by, who will administer them? We must rely on the State Industry and Commerce Administration to do this and it must be done energetically." In sum, in the past several years the industry and commerce administrative management organ has carried out its duties relatively well, protecting and promoting the smooth implementation of economic reform.

In recent years the laws and regulations of China's industrial and commercial administration management have been continuously strengthened. Ren Zhonglin said that since 1981 more than 20 industrial and commercial regulations have been passed by the National People's Congress and promulgated by the State Council. Nevertheless, the legal work of the Industry and Commerce Administration has not kept up with the pace of reform and problems have arisen which are not adaptable to the new circumstances. A major cause of several new unhealthy tendencies is the imperfect legal system. The year 1985 is the economic system's first year of comprehensive reform. Following the further enlivening of the economy and the comprehensive development of reform, even stronger

economic legal work will be required, as will the administrative management of industry and commerce to achieve laws that can and must be followed, strictly enforced and investigated if broken. One point must be made clear when carrying out this work: strengthening the legal system and administration is for the sake of guiding, promoting and protecting reform, and is not for returning to our old ways. Thus, our industry and commerce administrative organs must firmly enliven the economy domestically and implement the policy of opening up to foreign countries, diligently enforce relevant party and state policies, and in the course of opening up and enlivening, strengthen supervisory control to guarantee the smooth implementation of reform. This is the guiding thought we must stand by in doing industrial and commercial administrative management work. It is incorrect to set the reform and the strengthening of management in opposition to each other, as though to open and enliven does not require strengthened management, and that once management is stressed to think incorrectly that this means "closing" so that there is no need for opening up and enlivening.

Ren Zhonglin said that several new unhealthy tendencies have arisen since the fourth quarter of last year. Only after these ill influences are killed will the smooth implementation of economic reform be guaranteed. Within the scope of industrial and commercial administration the main unhealthy tendencies are listed below.

1. Many party administrative organs and cadres engage in commerce and manage enterprises. According to preliminary statistics from the Industry and Commerce Administration about the 25 provinces, special municipalities and autonomous regions, there are already more than 16,000 party administrative organs and cadres engaged in commerce or managing enterprises.

Party administrative organs and cadres have been entrusted with authority by the state for the benefit of the state and people. If the engaging in commerce and management of enterprises by party organs and cadres integrates officialdom and commerce and authority and profits, then this is using authority for private gain. Not only can these kinds of activities disturb the economy and harm reform, but they also harm the party and corrupt cadres, which is absolutely impermissible. Industrial and commercial administration organs must clean up and rectify those party administrative organs and cadres managing enterprises and engaging in commerce, and should take this up as the main duty for the first half of this year and treat it as a matter of great importance to protect the economic reform.

A general cleaning up and rectification is needed for enterprises managed by party administrative organs and cadres and we must further stress rectification, especially with regard to managing every kind of commercial enterprise. In using authority to manage commerce, the taking advantage of loopholes in prices and economizing measures, the playing of tricks to sell at huge profits, swindling and bluffing, and other illegal behavior must be strictly abolished, business licenses revoked and huge profits not taken. Taxes evaded must be paid as well as fines and penalties. Those engaging in industry, commodity circulation, technological consultation, and service endeavors can continue but they must follow the directives of the Central Committee and the State Council, and the direction of management

must be correct. Personnel, finance and materials must be released from organizational units, managed independently, and responsibility taken for profits and losses.

Ren Zhonglin said that in the work of cleaning up and rectification every level of industrial and commercial administrative organs must strictly follow the leadership of the party committees and the government. They must intimately coordinate with each level of the disciplinary commission and related departments to do things strictly according to policies, have a firm attitude, work carefully, handle things appropriately, and these unhealthy tendencies can certainly be eliminated.

2. Some units and individuals resell important production materials and scarce consumer durable goods, such as steel, automobiles, color T.V.s, etc. Once goods enter their hands they raise the price. Some goods just stay in the warehouse but change hands many times with a price rise each time, producing price inflation. In addition there is the use of false contracts, certificates and vouchers to engage in swindling. Not long ago in Yutian County, Hebei, a swindling case of marketing 20,000 imported color T.V.s raised more than 12 million yuan. This kind of illegal activity which disrupts market prices and harms the socialist economic order absolutely must be stopped. Only state managed enterprises, material commodity departments, supply and marketing cooperatives, and enterprises producing important production materials and scarce consumer durable goods wholesalers can manage these goods. Other units or individuals cannot manage them or pull strings to get in touch with forbidden middlemen, thereby reaping huge unfair profits. It is forbidden to buy up scarce goods from retail stores and raise prices on the spot and resell at a profit, or to sell at a profit plan-allocated supply certificates. All commodities with prices set by the state must strictly adhere to state-set prices in on-the-spot transactions, and it is forbidden to willfully raise prices or in any way to extort sums of foreign income. The use of false contracts, certificates and vouchers, cheating in buying and selling, and engaging in speculation and profiteering must be sternly attacked.

3. Some units and individual producers counterfeit commodity trademarks. For example, in Hebei several units produce counterfeit "Everlast", "Phoenix Empress", and Flying Pigeon" bicycles. In Wenzhou, Zhejiang, counterfeit watches are produced, and several places in Shandong, Henan and Hebei produce counterfeit namebrand liquors and tobacco as well as imitation honey, chemical fertilizers, pesticides, medicines, etc. These activities violate registered proprietary trademarks, harm consumer welfare, and even damage production and threaten health. They must be strictly banned.

Ren Zhonglin indicated that several state-managed factories are also guilty. For example there are several state-managed watch factories that dump large quantities of waste or inferior watch parts on the market, making it very convenient for counterfeiters. According to our understanding, watch factories from all over the country dump spare watch parts in more than 50 factories in Wenzhou, Zhejiang. There are also several cigarette factories that go out and buy large quantities of commercial brand packaging, and

several printing plants that print up counterfeit trademarks. These leaks must all be stopped up.

In addition to the problem of counterfeit goods, that of false advertising should also draw our attention. Advertising has an important role in promoting production, guiding consumption, disseminating information and enlivening the economy. The problem at present is that some enterprises in the course of economic reform do not use their skills to raise product quality or improve economic results, but use advertising to blow their own horns, fool the masses and harm consumer welfare. We must deal seriously with fraudulent practices and harmful advertising.

Ren Zhonglin said that the incorrect tendencies arising under present circumstances are not limited to the above three, others include indiscriminate or disguised price increases, fast dealings in foreign exchange, the excessive issuing of bonuses or lottery tickets, excessive printing and sales of unhealthy publications, etc. The industrial and commercial administrative organs must sternly clean up these unhealthy tendencies in coordination with relevant departments.

In conclusion, Ren Zhonglin said that the industrial and commercial administrative organs should continue to clean up "leftist" tendencies. In enforcing the law, we must pay full attention to correctly mastering policy lines, and conforming to Central Committee policy directives absolutely cannot be treated as an unhealthy tendency. Care must be taken to protect the enthusiasm of the cadres and masses during reform. Our industrial and commercial administrative organs are not only enforcers of the law, but also reformers, and thus should enthusiastically support those new matters and methods conforming to the direction of reform. During the economic reform process, new circumstances and problems will continually arise. How to strengthen management during reform and opening up is a new task for us. It requires us to grasp reality while understanding new circumstances in a timely way, to study new problems, to explore new experiences, to issue appropriate new regulations and amend those parts of the old regulations that do not fit new circumstances, and gradually to construct a new administrative system and methods. Only in this way can the Industry and Commerce Administration meet the demands of economic reform, and energetically realize the great goal of service to the construction of socialist modernization.

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INDUSTRY

LIAONING CITY MODERNIZES LIGHT INDUSTRY

OW220829 Beijing XINHUA in English 0658 GMT 22 May 85

[Text] Shenyang, May 22 (XINHUA)--Light industrial city of Yingkou in Liaoning Province has taken bold steps in importing foreign technology and equipment to update the light industrial technology.

Over the past two years, the city has imported 95 projects involving 400 pieces of advanced equipment to bring the technical standards of textiles and light industry up to date.

Yinkou was empowered to approve projects involving foreign investment not exceeding three million yuan and some other rights enjoyed by 14 open coastal cities including Shanghai, Tianjin and Dalian last year, according to a spokesman for the city government.

The total light industrial output value in the city in the first four months of this year was 18 percent up over the same period last year, according to the city's department of light industry.

Between January and April this year, the output of washing machines increased by 247 percent over the same period last year, fluorescent powder by 129 percent, paper and cardboard by 10.4 percent and chemical fiber by 76 percent.

Light industrial output value accounts for 67 percent of Yingkou's total industrial output value.

The city spent 120 million yuan last year to renovate 19 textile mills which added 180 new varieties of textiles. Twenty-one varieties are being exported.

The imported equipment helped the city equip 16 production lines for washing machines, televisions, cassette recorders, beer and cans.

Work is under way on the second construction phase of the Yingkou General Washing Machine Plant, which signed a cooperation agreement last year with a Japanese firm to produce 200,000 washing machines a year. Upon completion by the end of this year, the factory will produce 400,000 washing machines a year, making it one of China's leading producers.

The No Two knitting mill is now able to produce chemical fiber, jacquard and print products, as well as various types of high-grade overcoats, whereas it was only able to turn out pure cotton and plain-color clothes in the past. Its products are exported to more than 50 countries.

## CONSTRUCTION

### PENG ZHEN INSPECTS CONSTRUCTION IN BEIJING

Beijing LIAOWANG [OUTLOOK] in Chinese No 5, 4 Feb 85 pp 10-12

[Article by Li Shangzhi [2621 1424 1807]: "Beijing's Old and New Mayors On Construction in the City"]

[Text] It was 11 am on New Year's Day, 1985. Braving the cold wind, a tall, elderly man got off the car spiritedly. He wore neither a coat nor hat. Standing on the Beijing Sanyuan Bridge, China's largest triple overpass bridge [lijiao qiao 4539 0074 2890] to date, and watching the flow of traffic, he said emotionally, "Building triple overpass bridges is an effective way of solving urban traffic congestion." Turning to Li Ximing [2621 6932 6342], secretary of the Beijing municipal Chinese Communist Party (CPC) Committee, and Mayor Chen Xitong [7115 1585 0681], also secretary of the municipal CPC committee, who were beside him, he said, "You have more to show for your secretaryship and mayorship than I. I am particularly pleased to see these new achievements. Young people like you are bound to do better than us."

"Who is he?" some passers-by asked.

"He looks like our former party secretary and mayor, Chairman Peng Zhen."

More pedestrians now stopped and a number of bicyclists alighted from their vehicles. The old man greeted everybody happily.

Comrade Peng Zhen, CPC Politburo member and chairman of the Standing Committee of the National People's Congress, became secretary and first secretary of the Beijing municipal CPC committee when Beijing was liberated in February 1949. In 1951, he was elected mayor of Beijing. Wearing the two hats of party chief and government head in the capital, he presided over Beijing for as long as 17 years and contributed significantly to the capital's construction and development. Back in the 1950's, he oversaw the formulation of an urban construction plan for Beijing, which obtained the approval of the party Central Committee, but the "Cultural Revolution" played havoc with it. After the 3d Plenary Session of the 11th CPC Central Committee, Beijing modified the plan appropriately in light of the capital's actual conditions. Although he now no longer holds any leadership positions in Beijing, this 82-year-old revolutionary retains an interest in the construction of the city's socialist material and spiritual civilization. So he took advantage of the New Year holiday to visit places and look things over. Located at a spot originally called Niwang Temple, Sanyuan Bridge is so named because it is made up of three overpasses.

Su Zhaolin [5685 0340 2651], chairman of the Urban and Rural Construction Commission, explained that the bridge is situated at the junction of three newly constructed roads, Sanhuan Road, Airport Road and Jingshun Road. It occupies an area of 350,000 sq m, the surface of the bridge is 11,000 sq m while the road accounts for 117,500 sq m. There are five loading bridges, nine surface staircases and eight underground walkways. The bridge is lighted by 11 elevated lamps. Under the stimulus of economic reform, the construction of the bridge took just a little over 9 months. It was opened to traffic for the first time on the eve of the 35th anniversary of the founding of the People's Republic. Comrade Peng Zhen was delighted and said, "The construction is fast and the quality is good. The four modernizations should also aim for speed and quality." He admonished Li Ximing, Chen Xitong and other comrades to further liberate their thinking, do a good job in reform, respect science and make painstaking efforts to plan and lead so that the capital will more quickly become a more beautiful city.

Comrade Peng Zhen said, "Our streets and roads have many intersections. To resolve traffic congestion, we must tackle the conditions at intersections. Particularly in the old city, we must take a variety of measures to ease traffic at intersections. Clothing, food, housing and transportation are vital issues in the life of the people. If we fail to sort out the problems of urban transportation, we will waste everybody's precious time and complicate their production and livelihood."

Comrade Peng Zhen boarded the subway at Jianguomen and traveled to Xizhimen Station by way of Yunghegong, Andingmen, Guliu and Jishuitan Stations. On the train, he talked to responsible people from the relevant departments at length, inquiring into the progress of the second stage of subway construction. Chen Xitong said with a smile, "During the first 5-Year Plan in the 1950's, with you presiding, the municipal CPC committee and the municipal government decided to build a subway. On 1 July 1965, the 44th anniversary of the founding of the party, you, along with Comrades Zhu De, Deng Xiaoping, Li Xiannian and Luo Ruiqing, officiated at the groundbreaking ceremony marking the beginning of construction of the first stage of the subway. Now this second stage is but a continuation of the first stage for which you laid the foundation."

Comrade Peng Zhen said with feeling, "We cannot depend on ground transportation alone to solve the traffic problems of a large city. That's why from the First 5-Year Plan onward, Comrades Mao Zedong and Zhou Enlai, among others, demanded that we build a subway in the capital. The plan then was to have the subway run from Shijingshan all the way to the thermal generating plant in the eastern suburbs through East and West Chang'an Streets. Even after the completion of the second stage, we should consider extending the line gradually, from Fuxingmen to Jianguomen."

"Of course," he added, "subway construction requires a huge sum of money, which we cannot afford all at once right now. But as the nation's economy improves and development picks up, we must still continue to tackle the problem step by step."



At Xizhimen, he warmly shook hands with a female booking-office clerk who was selling tickets. He asked, "What's your name?"

The clerk stood up and replied, "Wang Yanbo [3769 7159 3134]."

"Are you cold working here?"

"No, not at all."

"How many tickets can you sell a day?"

"About 2,000, on the average. More on a holiday, roughly 5,000."

"You people work so hard even during a festival. Thank you very much."

When she found out that this amicable elder was Comrade Peng Zhen, she burst out emotionally after him, "Chairman Peng, thank you for your concern."

At noon, Comrade Peng Zhen arrived at a brand-new building housing the Xiyuan Hotel in northwest Beijing. With its sawtoothed exterior, this unique and original structure has 3 stories underground and 27 stories above. Handsome and magnificent, it stands out among the capital's other buildings. A modern luxury hotel, Xiyuan began providing a limited service last August but has not been formally opened. An excited Comrade Peng Zhen inspected the grand and spacious circular lobby on the first floor and greeted the attendants and master workers who insisted on working on this holiday. When people saw the old mayor, they could not help pressing forward to greet him.

Personnel in charge of the hotel informed Peng Zhen that the new hotel has 709 rooms, including singles, doubles and so-called split-level super suites, and a total of 1,437 beds. As he listened, Comrade Peng Zhen now and then interposed and asked questions, filling the building with the sound of clapping and laughter. After looking over the furnishings in several rooms, Comrade Peng Zhen took an elevator to the revolving restaurant at the top of the hotel. Surveying the surrounding area from the restaurant, which completes one revolution every hour, he was very touched to see the forest of new buildings below him and the scene of prosperity all around. He said, "Beijing has really been moving ahead rapidly over the past few years."

Pointing at the Beijing Exhibition Hall, Comrade Peng Zhen said, "Its architecture is both unusual and attractive. I recall some people once said that this style of architecture might be pleasing to the eye, but not practical. In fact, visual attractiveness also serves a useful purpose. Uniformity in urban architecture makes for dullness." Mayor Chen Xitong told him, "Chinese and foreigners alike today criticize Beijing buildings for being too monotonous and say they all look like matchboxes and mahjong tiles. We are trying to alter this situation." Comrade Peng Zhen said, "Urban architecture should be varied and interesting. Buildings must come in all forms and shapes so that they will not look boring. You know, architecture must pay attention to aesthetics too and be attractive as well as functional. I have been to Moscow and Qingdao. Their buildings are very unconventional and almost no two look alike. Henceforth we should bear this point in mind when we put up a new building in the capital."

Comrade Peng Zhen admonished comrades from the municipal CPC committee and the municipal government, "As one of China's ancient capitals, Beijing is known for its old culture. Urban planning and construction here must take into account preserving the appearance of the city as an ancient cultural capital. Protect cultural relics and historic sites. Our construction must be coordinated construction, which we must remember at every stage, from planning to design. Although the old city wall has been demolished, certain historic sites can still be repaired and maintained." He also added, "The capital is the center of attraction for the people of the entire nation, so we must go about its development with a strategic vision. For instance, at the time when we were building East and West Chang'an Streets, some people said we were making them too wide. As things now stand, it was a good thing we made them wide. Narrowing them would have been a mistake."

Mayor Chen Xitong noted that rebuilding the old city is a complex task which may cost several times more than building a town from scratch. Comrade Peng Zhen said, "True, rebuilding the old city is more complicated than putting up a new city. But Beijing is the nation's capital and an ancient cultural city. Through meticulous planning, careful leadership and a respect for knowledge and science, we had better try our best to do a good job here. In recent years, Beijing has had some success in its tree-planting campaign. We must keep up this effort in the days ahead. Apart from planting trees and flowers on the roadside, we should grow more lawns to make the city more serene and beautiful."

As the restaurant continued to revolve, a cluster of tall buildings in the distance came into view. Mayor Chen Xitong said, "That is Zhongguan Village." Comrade Peng Zhen said excitedly, "Many of the institutes of the Chinese Academy of Sciences are housed there and many scientists and researchers also live there. These people stand at the forefront of the four modernizations. We pin our hopes on them. It is only right that they live in tall buildings." pointing at a scenic spot, he said to Mayor Chen Xitong, "Is that the Black Bamboo Park? How come there is still no black bamboo?" Chen Xitong told him that Beijing parks these days, like its buildings, also suffer from the problem of uniformity and lack individual personality. Black bamboo has become a rarity in the city. Comrade Peng Zhen said, "The Black Bamboo Park must live up to its name. We should take some black bamboo plants from the south and plant them here for the enjoyment of visitors." He had a special word for Li Ximing, Chen Xitong and other comrades including Wang Hanbin [3769 3352 2430], secretary general of the Standing Committee of the National People's Congress. He said, "Urban construction from now on should take a long-term view and be based on careful thinking. It should seriously consider ways of enriching the life of the masses in their spare time. Note that in the future people will not be working 8 hours a day, as they do now, but 7, 6, even 5 hours. They cannot spend all their after-work time studying and sleeping, so we should take into account the need to provide them with better forms of entertainment."

Chen Xitong said that people in the capital today have increasingly rich and diverse cultural activities, entertainment and spiritual life, with some organizations and restaurants beginning to hold parties. Peng Zhen said, "Our traditional yangko [4441 2960] dance is a group dance. I am for social as well as group dancing. Some of our comrades may still have the feudal idea that

dancing is not proper. Actually, social dancing is both entertainment and exercise. What's wrong with that? Did we not all do yangko dance in the past?" His words made everybody laugh.

In the lounge, Comrade Peng Zhen told comrades on the municipal CPC committee, "I have two wishes. First, that you come to grips with cadre education and demand that the masses of cadres study political theories and all kinds of specialized knowledge. Our cadres have a low educational standard to begin with. What with the knowledge explosion in every field, our cadres must double their learning efforts. In the past, Comrade Liu Ren [0491 0088] and myself stressed cadre education. Second, that you promote young and promising cadres as soon as possible in accordance with the demand that our contingent of cadres be revolutionary, young, specialized and educated. They are a vital force in our drive to achieve the four modernizations." He said, "Young people these days are much more knowledgeable and capable than we when we were their age. We did not know many things when we were in our 20's and 30's, but after we assumed responsibilities, we grew into our jobs, didn't we? I have a 12-year-old granddaughter who is already telling me that we must do things in accordance with the standard of the 1980's. Old folks like us cannot hope to keep up with new scientific and technical advances. We must leave that to young people. Energetic and relatively free from conservative ideas, they are our hope for the future."

Mayor Chen Xitong told Comrade Peng Zhen that the municipal CPC committee and the municipal government are encouraging young people in all trades and professions, particularly those in production and services, to make an effort to learn foreign languages because they are a tool of international intercourse and a means of studying the advanced science and technology of other nations. Comrade Peng Zhen said, "Very good! Foreign languages are very useful if we want to have a successful open policy." He also encouraged the attendants at Xiyuan Hotel to learn foreign languages, English, French and Russian, saying humorously, "After you have mastered three foreign languages, I will come and congratulate you."

He asked a female attendant nearby, "How much do you make a month?"

"Last month was my best month ever, including basic wages and bonuses. But..." The girl sounded a little worried. "We are afraid that we will not make that much in the future."

Comrade Peng Zhen said with a laugh, "He is Comrade Li Ximing, currently secretary of the municipal CPC committee. I am a former party secretary. This is Comrade Chen Xitong, now mayor of the municipality. I am a former mayor. The three of us make this collective pledge to you, that as long as you work hard, your wages will not only not decline but will go up in the days ahead." The attendants were so happy that they laughed.

Throughout this four and one-half hour inspection tour, the 82-year-old Peng Zhen was witty and enthusiastic and kept up a flow of conversation, from the broad policies of construction in the capital to the nitty gritty of the life of the masses.

On their way back, they passed by the intersection at Xidan Road. Comrade Peng Zhen said, "Traffic here is really too crowded." Chen Xitong said, "We already have plans to build a triple overpass bridge here. This year we will also put in a north-south underground passageway beneath the two sides of Tiananmen and Wangfujing."

Comrade Peng Zhen said to Li Ximing and Chen Xitong delightedly, "There was a time when I was party secretary and mayor. Today you are party secretary and mayor. The more your achievements outshine mine, the more pleased I am." A burst of laughter filled the air.

12581

CSO: 4006/515

## CONSTRUCTION

### FEASIBILITY STUDY OF CHANG JIANG DAM COMPLETED

Wuhan HUBEI RIBAO in Chinese 19 Jan 85 p 1

[Article: "The Efforts of More Than 10,000 Scientific and Technical Personnel in Shanghai and the Scientific Research Achievements of 30 Years: The Chang Jiang Valley Planning Office Completes Feasibility Report on the Sanxia Dam"]

[Text] Reporter Chen Tang Ming [7115 1016 2494] reported that the Chang Jiang Valley Planning has completed its "Feasibility Study Report on the Main Sanxia Water Conservancy Project" which is the scientific research achievement of the past 30 years.

The Chang Jiang Valley Planning Office was established by authority of the State Council in 1956. To prove the safety and reliability and economic rationality of the Sanxia Dam, the Chang Jiang Valley Planning Office organized a cooperative effort by more than 10,000 scientific and technical personnel and carried out a long and difficult task. They looked for traces of flooding in high mountain ridges, and analyzed the patterns of flood waters from tons of hydrological data. The situation showed: Over the past more than 800 years since 1153, floods with a flow of 80,000 M<sup>3</sup>/sec in the Yichang section occurred 8 times, once every 100 years. The biggest one was in 1870. The flood was 110,000 M<sup>3</sup>/sec. This provided a scientific basis for designing the damming strength of the dam.

To understand the geological condition of the Sanxia area, they used such means as geological drilling and probing, remote sensing, geophysical prospecting, on-site rock tests to conduct massive geological prospecting. In the Sandouping area, they drilled more than 60,000 M, and they chose this granite layer as the ideal dam site.

In the area from the whole upper reaches of the Chang Jiang to the Yichang area, the annual downstream flow brings with it more than 52 million tons of sand and rock. Would the Sanxia Dam be silted by mud and silt several years after it is built? To answer this question, they conducted field surveys of the silting conditions of 18 southern reservoirs, including the Danjiangkou and Gezhoubai Dams, and built huge models to study the mud and sand in the area of changing backwater of the Sanxia Reservoir and proved that the problems can be solved by using the principle of "navigating the stillwater and allowing alluviation in moving water."

To solve the problem of "navigational hindrances" during construction, they designed an open navigational canal, temporary gates, elevators and many such plans. They also conducted many model experiments in hydrodynamics, river water-flow studies, rock dynamics, geodynamics, soil dynamics, gate controlled navigation, and conducted in-depth studies of the ecological environment in the dam area. Thus, construction of the Sanxia Dam was established on a completely scientific foundation.

Feasibility reports also scientifically proved the economic benefits of the Sanxia Dam. In flood prevention, it will control the water sources within 100 KM<sup>2</sup> in the upper reaches of the Chang Jiang. Flooding that occurs every 100 years would be solved without requiring flood water diversion in the middle and lower reaches. The dam will serve to generate hydroelectric power with an installed capacity of 13 million kW and an annual average output of 65 billion kWh of electricity. The economical power supply radius can reach Shanghai and ease the energy shortage in the East China region and promote the formation of the nation's large power network. After completion of the dam, backwater will cover 400 to 500 KM and flood large and small dangerous banks to form deepwater navigational channels and greatly improve river transportation. Because the Sanxia Reservoir diverts water to Danjiang, water can flow downward by gravitation to reach Beijing, and water in the south is diverted to the north. The amount of water thus diverted will be equivalent to that of one Huang He and will fundamentally solve the water shortage in the North China plain.

The above plan is the achievement of many years of research by the scientific and technical personnel of the Chang Jiang Valley Planning Office. Their scientific attitude has been praised by the authorized leadership.

9296

CSO: 4006/397

DOMESTIC TRADE

PRC MINISTER'S ARTICLE ON CONSUMER GOODS OUTPUT

HK071215 Beijing JINGJI YANJIU in Chinese No 4, 20 Apr 85 pp 32-38

[Article by Yang Bo [2799 3134] of the Ministry of Light Industry: "Several Questions on the Vigorous Development of the Production of Consumer Goods"---written in March 1985]

[Text] Since the 3d Plenary Session of the 11th CPC Central Committee, our nation's economic situation has improved year by year. Through readjustment, the overall national economy has come onto the track of sustained, stable, and coordinated development. In this fine situation, the development of light industry, which is closely related to the lives of the people, has been swift. Not only has production volume increased by a large degree, but product quality has improved year by year, designs and varieties have been continually renewed and market supply has been quite abundant. This is acknowledged by everyone. However, we should also recognize that light industry's present production is far from in accordance with the people's purchasing power and the demands made by changes in the consumption structure. We cannot treat the market question lightly or be unrealistically optimistic. We must make the greatest efforts to increase production, especially of brand-name and superior products and other products which find ready markets. We must satisfy market demand, consolidate and develop the fine situation, and guarantee the smooth carrying out of the reforms.

1. Suit the New Market Situation, Vigorously Increase the Production of Products Which Find Ready Markets

This year is the final year of the Sixth 5-Year Plan. Following the further deepening of the overall reform of the economic structure which has cities as the key points, the national economy will inevitably see a new situation of sustained, stable, and coordinated growth. In the new situation, the tasks of light industry will be even more arduous. Our national policy is firstly reform and, secondly, opening to the outside world. We must seriously implement the "Decision of the Central Committee of the CPC on Reform of the Economic Structure," seriously and reliably carry out the reform of light industry, further implement the policy of invigorating the domestic economy and opening to the outside world, speed the technical transformation of light

industry, vigorously develop the production of consumer goods, use more and better light industrial products to make the urban and rural markets prosper, improve the people's lives and make a new contribution to our nation's four modernizations.

Marx in "Introduction to 'A Contribution to the Critique of Political Economy'" made a scientific exposition on the relationship between production and consumption. He pointed out: "If there was no production, there would be no consumption. However, if there was no consumption, there would be no production, because production would, in this situation, have no purpose." (Marx, 4. "Introduction to 'A Contribution to the Critique of Political Economy'" in "Selected Works of Marx and Engels," vol 2, p 94) The party Central Committee and State Council have made some important decisions with regard to the question of consumption as it affects the people of the nation, and have put forward the policy of appropriately increasing consumption. Premier Zhao Ziyang has pointed out that it is necessary to have correct ideas in regard to the market, consumption, and purchasing power. In the past, we did not greatly understand the role of the market and used the method of restraining consumption in order to engage in construction. Commodities were insufficient and thus ration coupons were issued. Relying on this method of restraining consumption can result in the feedback function of consumption in planning production being lost. Production determines consumption but growth in consumption is also a motive force which produces new social needs and promotes the development of production. We should appropriately encourage consumption and use the great superiorities of the market to actively develop the production of consumer goods and speed the pace of consumption. This is the basic policy guiding our work. We must liberate our minds, raise our understanding and fully appraise the new changes in the consumer goods market. This will provide light industry with arduous tasks, arouse the vast number of staff and workers to speed the development of light industry in a thousand and one ways, and promote the further prosperity of the consumer goods market.

At present, the consumer goods market is seeing marked changes and new trends. Social purchasing power has increased enormously. This brings with it a great force and affects a wide area. Regarding commodities in the market, there are certain brand-name medium and high-grade products which are always in great demand, and the supply of these cannot meet demand. However, apart from these, there are other daily-use consumer goods, which formerly had a basically balanced supply-demand situation, but which have now begun to sell well. The supply of these sometimes cannot meet demand. Some have even sold out. Also some slow-selling products have begun to sell well. If we analyze the reasons for this, we find on the one hand that there are factors related to the psychology of consumers. That is, they are worried that the price of goods is about to rise, so they buy in anticipation of the future price rise. On the other hand, we find that in recent years consumption funds have increased too quickly and that the development of production has been unable to keep up with the growth in purchasing power. This year, following wage reforms and the further increase in peasants' income, it is predicted that purchasing power will again rise to a great degree. This will



provide great pressure as well as great motivation for the production of consumer goods. As to which things light industry is going to use to draw currency back out of circulation and balance the market, this is a great problem confronting us.

We must pay great attention to studying the consumer goods market and the changes in people's consumption. Also we must, from beginning to end, adhere to the idea of taking the satisfaction of the peoples' needs in their material and spiritual lives, as the aim of socialist production and the motive force of reproduction. At present abrupt changes are taking place in the consumer product markets, and their characteristics are mainly as follows: As urban and rural people have basically resolved the problems of food and clothing, the consumption of the people in some areas has gradually shifted to that of a "better off" life; urban consumption has tended towards quality and diversity, while rural consumption has tended toward urbanization; in terms of commodity demand, traditional consumption habits, consumption consciousness, and consumption structures are changing. The situation where the consumption desires of those urban and rural residents who have become prosperous first, exceed those of their predecessors is increasing; the demand of people of different ages, different sexes, and different occupations are reflected in different levels and different types of consumption as a consequence of increased wages and changes in lifestyles; in terms of consumption consciousness, this is expanding from needs in material life to needs in spiritual life; and closed-style consumption, where food and clothing were economized on, has changed to open-style active consumption. These changes will become more obvious in future.

As to changes in the consumption structure, a change from satisfying "basic livelihood needs" to satisfying "the needs of overall development" has already commenced. In terms of edible commodities, the trend towards higher quality and diversity is continuing and the ratio of non-staple foodstuffs is increasing. In terms of clothing, the demand is that it be suited to the season and be beautiful and fashionable. As for utensils, the demand is changing to new, high-grade, brand-name, comfortable, good-looking and functional foods. Also in terms of accommodation, following the improvement of living conditions and the expansion of area available, the residents are making new demands for products for their houses. In general, it is as the people often say: "For food, nutrition is stressed; for clothes, beauty is stressed; for utensils, high-quality is stressed; and in the home the decorations are stressed." At the same time as material life is improving, spiritual and cultural life is also daily becoming richer. Service in terms of travel, health, entertainment, social contacts, beauty, and household service requires the supply of all types of appropriate consumer goods.

In facing the new situation of changes in people's consumption, we must have a strategic viewpoint and strategic countermeasures which conform with the demands of the times. We must completely understand the pattern of changes in consumption, clearly set down the direction of our work and guide production towards healthy development. The party's 12th Congress put forward the overall tasks and aims in economic construction to be achieved by the end

of the century. All our work must be subordinated to and must serve these tasks and aims. We must firmly adhere to the policy of strongly developing consumer goods production and, with the precondition of raising economic results, strive to exceed the requirement of quadrupling light industry output value by the year 2000. This will make a positive contribution to helping the people achieve a better-off standard of living.

In developing light industry, products must suit the market and accord with market demand. Therefore we must expend great energy in increasing the production of brand-name products and superior-quality products, and produce a large number of key products which meet market demands. We must seriously develop new products and strengthen the overall development of product research, planning, test-production, and batch production. It will also be necessary to speed the renewal of products and be determined to eliminate some of the old-fashioned slow-selling products. The production technology for some products which are in great demand is not up to standard and it is possible to import some individual parts and assembled parts for these. Thus, we will be able to come forward from the rear, and gradually increase the proportion of domestically-manufactured complete sets of equipment. The Yingkou Washing Machine Plant used this method and it is thus called the "Yingkou pattern." In doing things this way, the starting point is high, the quality fine, the speed swift and the economic results good. The "five batches" method, that is, expanding a batch of products which suit the market, striving to establish a batch of superior products, duplicating a batch of imported products, developing a batch of products through scientific research, and eliminating a batch of backward products, has been put forward by Jiangsu Province. This method deserves to be copied and disseminated. Under the conditions of a planned commodity economy, we must pay great attention to market investigation and forecasting and stress information work. We should also, in a timely way, change and adjust the product structure in accordance with market requirements so as to reach a situation where there are small quantity batches and a large number of varieties.

In the last few years, the level of peasants' income has risen dramatically and commodity consumption has expanded. This has made more and greater demands on the products of light industry. Our nation has extensive rural markets and thus, in our guiding ideology, we must change the former tendency where to a large degree stress was only placed on the cities, and the rural areas were overlooked. We must take the expanded rural demand as our starting point in work. Peasants require not only ordinary daily-use industrial products but also need some high- and medium-grade, as well as durable, consumer products. We must strive to increase the production of light industry products to meet the peasants' needs. This is related to the important question of strengthening industrial-agricultural alliances and the establishment of new socialist relationships between urban and rural areas, and cannot be treated lightly.

We must continue to raise product quality, improve packaging, and firmly adhere to the principle of giving primary importance to quality. As the level

of consumption continually rises and market competition becomes daily more vigorous, the quality of light industry products, and whether it is good or bad, will be related to the important question of the continued existence of the enterprises. This is especially so in regard to export products. If they are not well-made, they will not only not sell well, but will also affect the reputation of the nation. We must continue to expend great energy on grasping quality management well and in an overall way, so as to raise it to a new level. We must strengthen basic technical work, positively adopt international standards, increase the measuring and surveying methods, and establish a quality control system. There should be serious investigation and punishment of those few enterprises which pay little attention to quality control, skimp on labor and materials, manufacture things in a slipshod way, pass off inferior goods as first-class and deceive users. We must clearly establish the ideology of wholeheartedly serving the consumers and do well in sales and service work.

## 2. Positively Carry Out Reform of the Light Industry System, Increase the Vigor of Enterprises

The decision passed by the 3d Plenary Session of the 12th CPC Central Committee on the reform of the economic structure is the basic blueprint for the reform of our nation's economic structure, and is a socialist programmatic document with Chinese characteristics for guiding our construction. The central link in the reform of the economic system is strengthening the vigor of enterprises, in order to develop the social forces of production. We must seriously study the Central Committee's "Decision" and carry out the work of reforming light industry in a more deepgoing way. Light industry involves many trades, many enterprises, and many factories. Both large and small products are produced in light industry, two forms of public ownership exist within the industry and products are directed to markets both within and outside the country. Thus, in the reform, it is necessary to implement various forms of leadership. The reform of collective light industry enterprises must, on the basis of results already achieved, continue to be carried out. Also, the various types of economic responsibility system must be perfected. It is necessary to continue to seriously implement the "Provisional Regulations on Various Questions Related to Collective Light Industry Enterprises" which have recently been approved and circulated by the State Council, and further invigorate collective light industry enterprises. Also, in accordance with the demands of the situation it is necessary to develop new situations, sum up new experiences, expand the scale and range of the reforms and further push these reforms forward. Those former regulations which are not beneficial to the development of the productive forces should be reformed, but egalitarianism and the indiscriminate transfer of resources will not be allowed.

Small state-owned light industry enterprises have many similarities with collective light industry enterprises, and the work of reforming these should use the experiences gained in the reform of collective enterprises. It is possible to have enterprises which are owned by the whole people and managed collectively, pay taxes according to law and are solely responsible for their

own profits and losses. It is also possible to use collective or individual contracts, or the enterprises can be leased out to collective or individual management. The reference to enterprises being "owned by the whole people and managed collectively" means that under the principle of appropriately separating ownership and management rights, the production, management, administration, allocation and pricing of small state-owned enterprises are all handled like those of a collective enterprise. This allows the enterprise more freedom and more vigor. Small light industry enterprises have similar conditions to commercial enterprises and foodstuffs enterprises, and thus it is possible to implement for them the favorable support policies extended to commercial and foodstuffs enterprises. After these small enterprises are given more freedom, tax revenue from them will certainly not decrease and will probably increase.

The Central Committee's "Decision" points out: "The key to restructuring the national economy with the focus on the urban economy is invigoration of enterprises, particularly the large and medium-sized enterprises owned by the whole people." Although large and medium-size light industry enterprises do not constitute a large proportion of light industry enterprises, their output value, profits and taxes play a dominant role. Therefore, it is necessary, in accordance with the State Council's "Provisional Regulations on Further Expanding the Autonomy of State-Owned Industrial Enterprises" and the stipulations of the second-step of the reform to substitute tax payment for profit delivery, to speed the pace of reform. Light industry management departments and enterprises at all levels must positively and seriously implement the arrangement whereby the state hands down autonomy to enterprises, so as to provide the enterprises' production and operations with diversity, flexibility and initiative. In regard to mandatory plans for large and medium-size enterprises, they should not take up an enterprise's entire capacity. Some leeway should be left. The regulatory tax for advanced backbone enterprises can be gradually reduced by the state. In accordance with the demand of having younger, more professional, more educated and modern cadres, we must further grasp well the readjustment of the leading groups. It is necessary to select suitable and reliable factory directors (managers) who have the ability to organize and guide enterprise production and operations, and to speed the implementation of the factory director responsibility system. Also, it is necessary to have good party secretaries, chief engineers, head economists and chief accountants. In the selection of leading cadres for enterprises, we must proceed from reality and stress real ability and learning. We cannot one-sidedly stress academic records and certificates.

Our nation's socialist economy is planned commodity economy. In facing the new situation of increasingly fervent competition, enterprises must increase the conscientious use of the law of value, strengthen management work and, in accord with market changes and the people's needs, raise operational decision-making capabilities. Practice has proven that operational decisionmaking is directly related to the [word indistinct] of an enterprise. Those which look ahead are those which have a driving force; those which change quickly and appropriately strengthen their abilities are those which see rapid

development of production and good economic results, and end up in an invincible position. The Wuxi Electric Fan Plant, in a situation, carried out an investigation of urban and rural markets, divided by category and area. From the products in great demand they selected those which were in short supply and made an operational decision to produce mainly medium- and high-grade floor fans. Throughout the country they established 300 wholesale outlets and 33 repair centers, and joined together production decisionmaking, operational decisionmaking and after-sales service to form a whole. Thus, the fans sold well both domestically and abroad and, over 5 years, output value increased over six times, production value increased over four times and taxes paid increased over five times.

#### What Should We Stress in Reform?

First, we should correctly rectify our guiding ideology. The aim of reform is developing the productive forces. All of our reform measures must be subordinate to this general requirement and must firmly grasp this basic point. We should positively adopt all those measures which are of benefit to enlivening the enterprises and to developing the productive forces. Likewise, we must not adopt or implement any measures which obstruct the enlivening of enterprises or obstruct the development of the productive forces. We must carry out our work in a down-to-earth way, arouse all positive factors and develop the productive forces. We certainly cannot engage in unhealthy trends. If new unhealthy trends occur, where enterprises do not put real effort into reform, but use the cover of reform to give excessive bonuses, subsidies and presents, indiscriminately raise prices, disrupt the market, harm the interests of consumers, and so on, this is not really reform. Doing things in this way harms the reputation of reform, harms the state and harms the interest of the people. It does not enliven the economy, but rather obstructs the normal development of economic life. This certainly cannot be allowed.

Second, we must positively implement various forms of the economic responsibility system. This is an effective measure both in collective enterprises and state-owned enterprises. All of these should gradually and in a planned way positively implement various forms of economic responsibility system. The signing of contracts resolves three problems: 1) In the system of responsibility, there are levels of responsibility, which changes the former situation where responsibilities were not clearly defined, nobody took responsibility, the staff ate from the "big pot" of the enterprises and enterprises ate from the "big pot" of the state; 2) it correctly handles the relationship between the state, the collective and the individual, and links up the individual interests of workers with the interests of the state and collective; and 3) it manifests the principle of from each according to his ability, to each according to his needs. Income is differentiated whereby if you work more, you get more, and if you work less, you get less and if you do not work, you do not eat. The general principle to be followed is that the rate at which wages and bonuses increase does not exceed the rate of production growth or exceed the growth of labor productivity.

Third, light industry management departments at all levels must stress the streamlining of administration, the handing down of power and the separation of government and enterprise functions. In accordance with the demands put forward by the Central Committee's "Decision", the major tasks of light industry management departments at all levels are as follows: They must seriously implement the principles and policies formulated by the Central Committee and the State Council, take responsibility for overall planning, achieve an overall balance, and organize service in terms of coordination and supervision. Thus, it is necessary to really hand enterprise power over to enterprises and expand the autonomy of enterprises so that the enterprises really bring into play their initiative, enthusiasm, flexibility and creativity. In this way they will all become relatively independent economic entities, socialist commodity producers, and operators responsible for their own operations and solely responsible for their own profits and losses. They will have the capability to create and develop by themselves. Now, in all areas, there are several first light industry and second light industry companies. All administrative companies must establish conditions so that they can change into operational and service companies. Thus, they will be able to assist in production operations and will not just be administrative "mothers in law."

### 3. Rely on Scientific and Technological Progress, Speed the Technical Transformation of Existing Enterprises

In developing light industry, it is necessary to implement the principle of relying on scientific and technological progress and to speed the technical transformation of existing enterprises. Systems reform can increase the vitality of enterprises while technical transformation can increase the actual strength of enterprises.

Through over 30 years of construction, our nation's light industry has already established a firm base, and has a quite large structure. However, in most of the existing enterprises, equipment is old-fashioned, techniques are backward, and products do not accord with demand and lack the ability to compete. Thus, we must decide to carry out technical transformation of existing enterprises, continue to keep the investment focus on the transformation of existing enterprises (including reconstruction and additions), speed technical progress and improve the technological quality of enterprises. In this way we will realize a great breakthrough in terms of production technology, management technology, service technology and information technology. This will provide light industry with a new technological base. In technical transformation, light industry machinery must take priority over the rest. We must positively develop advanced machinery and equipment so as to provide the development of light industry with modern technology and equipment.

At present new science and technology is developing at a rapid pace. The new technological revolution is upon us. Microelectronics, biological engineering, new materials and other of the very newest scientific and technological advances are spreading into all spheres. We must use advanced science and technology, focus on the demand to readjust the product structure, raise product quality, develop new products, save on energy and resources

consumption, raise labor productivity and so on, and carry out the technical transformation of existing enterprises. We must break through the fetters of old-fashioned ideology, bravely utilize foreign funds, speed the pace of importing technology, and adopt diversified forms and many channels to especially import medium-size and small items which require little investment and which produce quick results.

In the technical transformation of light industry, the following questions should be stressed:

1. Funds should be raised through many channels and used well. In the use of funds, it is necessary to keep in mind the turnover of funds, interest and return on investment. We should strive for small investment, short turnover, great return and good economic results. The funds should mainly be used in the technical transformation of old enterprises. In investing in new trades and new product development, we must also, as far as possible, use the base of existing enterprises and carry out renewal and transformation. In general, we should not set up new structures.

2. We must put forward plans and carry them out in turn. In light industry there are many enterprise and many trades. Transformation tasks are arduous and our available strengths are limited. Thus we need to set down an order of priority for enterprises which need to be transformed and grasp the key trades and key products. We need to seize the weak links, centralize our strengths and carry out transformation by stages and in groups. The experience of all areas has proven that planned technical transformation and unplanned technical transformation are vastly different from one another. If there is a plan, it will be decided which enterprise is to be transformed first, which is to be last, which is to be completely transformed, which is to be partially transformed, which is to have all equipment imported, and which is to have only some of its equipment imported. There will be a fair idea of aims and things to be done accordingly, work will be done in a step-by-step and ordered way, annual plans implemented quickly and the results of transformation good. If there is no plan, aims are not clear, arrangements in one area are used indiscriminately in other areas, and strengths are divided equally, with the result that there is more haste but less speed. We must use our own judgment in correctly handling the relationship between the present and the long-term.

3. We must speed the pace of importation. In the technical transformation of old light industry enterprises, apart from depending on our own technical equipment, another important measure to be taken is the speeding of the pace of importation. The equipment already imported from abroad has played an important role in terms of raising the level of technical equipment, raising economic results and product quality, and increasing types and varieties. The Guangzhou Electrical Refrigerator Company has imported two refrigerator production lines, and these have caused production capacity to increase markedly and product quality to reach the international level of the end of the 1970s. Changzhou City imported a silver oxide electric battery production line from Japan, and now produces 10 million batteries a year. The

up-to-standard rate for products has also risen from 17 percent to 99.8 percent. This has proved an initial solution to the problem of supplying button batteries. While importing equipment, we must pay attention to importing technological software and pay attention to combining technology and trade, so that through digesting and assimilating imported equipment we can raise our own technical level. The open coastal cities, the economically developed areas, and the provinces and cities which have a base must play two roles in technical transformation. First, they must fully utilize their own conditions, positively import advanced technology, advanced equipment and advanced operations management forms, assimilate and digest it, and blaze new trails. Second, they must spread and export the technology to inland areas and backward regions and make a contribution to the technical transformation of those areas so as to continually promote and spur on the development of light industry throughout the country. It is also necessary to implement appropriate policies of changing technology and fund investment in accordance with market demands. At the same time, we should pay attention to protecting national industry, supporting new industries, and eliminating backward industries. We should positively create conditions for the application of various types of modern technology. For example, we can apply biological technology in the foodstuffs industry, electrical technology in the production of durable consumer goods, and micro-management organs in operations management.

4. We must fully bring into play the role of scientific research units to serve in the technical transformation of enterprises. The way in which light industry scientific research work develops has a great influence on the technical progress of light industry and the development of consumer goods production. The vast majority of the scientific and technical projects of the Sixth Five-Year Plan will be completed this year. The relevant departments must make a concerted effort to guarantee that the planned targets are achieved on time. The various types of scientific research projects must be arranged in the overall plan in accordance with whether they are important or minor, urgent or otherwise. It is important to grasp the key projects, centralize efforts, achieve a breakthrough and combine the parts and the whole, while stressing macroeconomic results. We must grasp well the work of reforming the system of science and technology and further implement the system of compensatory contracts for scientific and technical projects. All who sign partial funds compensation contracts must grasp well the repayment schedule. All those who are organizing new projects must pay attention to grasping well feasibility and preparation work so as to guard against blindness and guarantee reliability.

The research institutes of the light industry system should pay great attention to research in the application of technology. They should also take as their point of stress the digestion and absorption of imported technology and the blazing of new trails so as to serve the development of new trades and technical transformation of old factories.



#### 4. Develop Horizontal Economic Links, Strengthen Economic and Technical Cooperation.

Following the progress of science and technology and the expanded application of scientific and technical results in industrial production, the division of labor will become increasingly specialized and the production relationships between various departments and various enterprises will become increasingly specialized and the production relationships between various departments and various enterprises will become increasingly close. This requires that we break through the fetters of old-fashioned production relationships, develop in the direction of specialized coordination and alliances, change the former "scattered and independent" production patterns, use new social production forms to organize production, and achieve socialized large-scale production. Comrade Hu Yaobang has pointed out that "opening to the outside has two integral facets. One is opening to the outside world, while the other is opening to outside provinces, regions and districts. We must open to two outsides, not one. In this way, there can be mutual interchange and mutual advancement and the economy can be enlivened." Breaking down the divisions and blockades between regions and departments, mutually opening up, and developing horizontal economic links and economic and technical cooperation from an inevitable trend for promoting the rationalization of the economic structure and of regional deployment, and for achieving socialized large-scale production.

Through over 30 years of development, the level of mechanization and labor productivity of our nation's light industry have seen great increases, and the scale of production has continually expanded. However, the forms of production organization in light industry enterprises have not changed greatly. Now the national light industry system has over 70,000 enterprises spread throughout the country. However, most of the enterprises remain at "large and complete" or "small but complete" all-round factory stage. The degree of specialized cooperation and links is small and the appropriate links between regions, between urban and rural areas and between enterprises are missing. This situation does not accord with the demand of the further development of light industry. Following the development of a planned commodity economy, we must break through the various blockades, open up the gateways, strongly promote horizontal economic relationships and develop various types of economic alliances and economic and technical cooperation.

"Light industry relies on alliances." In the last few years under the guidance of the Central Committee and State Council's policies in regard to developing strong points and avoiding weak points, bringing into play superiorities, safeguarding competition, and promoting alliances, many districts and light industrial enterprises have made good progress in terms of economic alliances. They have explored and organized economic alliances of diverse types and achieved very good results. Especially since last year, under the impetus of the reform of the economic system, the pace of light industry economic alliances has increased dramatically and a new situation has emerged. We should act in accordance with the situation, positively promote economic alliances and speed the development of light industry. At present, we should pay attention to grasping well the coordination of the following several aspects:

1. Developing economic alliances which cut across trades and cut across regions, which use key cities as support, have backbone enterprises as their main part and have superior quality, brand-name products as their key products. In 1980, Premier Zhao Ziyang put forward that we had to "organize special coordination and develop diversified forms of economic alliances by grasping key industrial cities, and taking factories which produce brand-name superior quality products as the center." The light industry of our nation's key cities is relatively developed, technology and equipment is quite advanced, the management level is quite high, and the information system quite complete. Economic alliances which cut across trades and cut across regions, which take key cities as support, take backbone enterprises as their main part and superior quality brand-name products as the key products, will allow the economic and technical superiorities of key cities and backbone enterprises to be fully brought into play. In terms of raw materials, technology and funds, superiorities will be brought into play and shortcomings avoided, and this will promote the common development of industrial production. In July 1984, after the State Council had approved a program to expand the production of brand-name bicycles, the bicycle industries in Shanghai, Tianjin, Guangzhou and Qingdao took five types of brand-name bicycles--Fenghuang, Yongjiu, Feige, Wuyang and Jinlu--as the key products and organized economic alliances which cut across regions. In 1985 they will be able to produce 12.58 million bicycles.

2. Developing economic alliances between urban and rural areas. The relationship between light industry and agriculture is extremely close. Half of light industry's materials come from agriculture. Thus, developing alliances with agriculture will be extremely important in speeding the development of light industry. In the last few years the rapid development of the rural economy has resulted in agricultural production starting to turn toward a socialized, modern specialized economy. A certain proportion of peasants is gradually turning to industry, commerce, transport, and service industries. The development of alliances with rural areas by light industry departments and enterprises can, on the one hand, strongly promote the development of a specialized, socialized commodity economy. On the other hand, it can provide beneficial conditions for the supply of funds, factories and labor for urban light industry as well as a rich supply of agricultural and sideline products. This will result in urban and rural light industry bringing out the best in each other and developing beneficially together. The development of economic alliances and cooperation between urban and rural areas can gradually reduce differentials between industry and agriculture and between the urban and rural areas. This will cause industry and agriculture, as well as the urban and rural areas, to join more closely together and establish new socialist urban-rural relationships which have Chinese characteristics. The Sichuan provincial light industry system joined together with rural areas to organize joint raw materials base areas, joint rough processing and joint fund-raising. In developing the foodstuffs industry, developing products in short supply, and developing new products, they have achieved outstanding results. They have established a new road for developing the foodstuffs industry at a high speed. The Beijing Washing Machine Plant has taken the "white orchid road" with 90 percent of its

components being processed or produced by town and village enterprises. On the one hand, this promotes the development of town and village enterprises, and on the other it speeds the production of washing machines. In 1984 the enterprise produced 274,000 washing machines, an increase of 38 times over their 1979 figure before the work was spread out.

3. Developing economic and technical cooperation and specialized assistance. Developing economic and technical cooperation is an objective demand of socialized large-scale production and the development of the productive forces. The development of our nation's light industry has reached different levels in different areas. The differences in technical levels, production levels and management levels are very large. By developing economic and technical cooperation and specialized assistance, we can use the strong points and avoid the weak points, bring into play each area's superiorities and promote the development of light industry. The Xinjiang Light Industry Office, in order to change the backward state of light industry in the region, positively developed economic and technical cooperation with other provinces and cities. In 1984 there were 118 cooperative projects, and these promoted the development of production. The Yili bone glue factory changed losses to profits in less than a year and achieved profits of 80,000 yuan. The Xinzhou glass factory in Shanxi accumulated debts of 1.18 million yuan in the 21 years prior to 1981. In 1981 they commenced joint operations with the Jinghua glass factory of Qingdao and carried out technical cooperation. Not only did production value increase, product quality improve, and the varieties of products take on new styles, but losses were turned to profits and economic results were improved.

4. Developing industry-trade alliances and expanding the export of light industry products. We should, in accordance with the instructions of the State Council, positively develop industry-trade alliances and, on the basis of the needs of the international market, organize production and expand exports. Practice has proven that industry-trade alliances are beneficial to promoting the development of export products. The Zhejiang Provincial Handicraft Export Joint Company was set up in 1981 by combining the industrial and trade sides. After the alliance, production increased, exports expanded and economic results improved. In 1980, prior to the alliance, 3,420,000 of goods were exported. In 1981 this figure grew to 8.21 million and in 1984, exports were valued at 343 million.

In developing horizontal economic alliances, it is necessary to seek truth from facts, to always proceed from the actual situation, and to handle things in accordance with objective economic laws. In doing well in terms of economic alliances it is necessary to adhere to the following principles. The first is the principle of bringing into play superiorities and avoiding weak points, mutual benefit and interests, mutual assistance, and common development. The second is the principle of adhering to voluntary participation in alliances. Economic alliances must have voluntary participation by the enterprises as a precondition, and decisionmaking initiative must really be handed over to the enterprises. We certainly cannot use administrative orders to arrange "shotgun marriages." The third is that economic alliances

must be beneficial to breaking through the divisions between industries, departments and regions, and be beneficial to implementing industry plans and industry management. The fourth is that they must adopt flexible, diversified forms. We cannot stipulate one fixed form of alliance. In accordance with the characteristics of light industry and the experiences of various areas, it is possible to arrange either quite close economic alliances or reasonably loose alliances and cooperation. The alliances can be long-term stable alliances or one-time, short-term alliances or cooperation. They can be alliances which cross regional and industry boundaries or they can be alliances within one area or within one industry. They can be production alliances or joint industry-commerce and industry-trade alliances. They can adopt joint investment forms, cooperative production forms, or compensatory trade forms. Also, we should stress the alliance of production enterprises with scientific research units and specialized institutions. In general, any form of alliance which is beneficial to developing production and enlivening the economy can be tried out and explored. The fifth is that we must abide by the principle of separating government and enterprise functions. The economic alliances should be independent economic organizations which enjoy complete autonomy, and which independently carry out production operations activities. The administrative departments must stress research into the principles and policies for alliances, strengthen macro-guidance, and do well in coordination, service and supervision. They must not interfere in the internal affairs of alliances.

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## DOMESTIC TRADE

### HOW SUPPLY, MARKETING COOPERATIVES CAN BE EXPANDED

Beijing BAN YUE TAN [SEMIMONTHLY TALKS] in Chinese No 5, 10 Mar 85 pp 28-29

[Article by Qiu Yuan [6726 0626]: "A New Field for Supply and Marketing Cooperatives"]

[Text] A peasant from Fuyang County, Zhejiang Province, says, "Supply and marketing cooperatives provide the peasants with pocket money." This sentence symbolizes the purpose of the work of supply and marketing cooperatives.

Today, as rural commodity production is developing vigorously, the old roles of supply and marketing cooperatives as merely the purchasers of agricultural and sideline products and the suppliers to peasants of production and livelihood materials are now inappropriate. Comrade Li Xiannian recently said that we must "strive to turn supply and marketing cooperatives into rural economic service centers." This requires that supply and marketing cooperative personnel have strategic vision and a spirit of development, and that they waste neither time nor the opportunity to expand swiftly the economic activity of the cooperatives in the directions needed by the peasants. Besides the supply and marketing cooperatives' former business, they will also do whatever the peasants require.

Representatives attending the National Supply and Marketing Cooperative Reform Symposium that was held recently feel that the following areas of the supply and marketing cooperatives could be greatly expanded:

1. Develop grain markets and expand grain business. It was an accomplishment that in the last 2 years supply and marketing cooperatives nationwide transported and sold more than 10 billion jin of grain. Yet a relatively large number of supply and marketing cooperatives did not handle grain. Thus, there are still many projects that could be done in this respect.
2. Energetically develop processing and other finishing industries for agricultural and sideline products. In the past the peasants sold whatever they produced in large quantities. Incomes could be greatly increased if we start up agricultural and sideline product industries and sell primary goods after processing. If a county has several or several score backbone industries, the smaller ones are managed by basic level communes while medium and large ones are jointly managed within the counties.

3. Actively develop the construction trades to serve the peasants. We can organize surplus agricultural labor into construction teams. We can also develop cement, brick, and other construction materials industries.

4. Open transportation and storage industries. Transportation and storage become major questions as the rural commodity economy develops. Supply and marketing cooperatives must make the transport and storage trades develop in the direction of serving society.

5. Open integrated markets and trade centers. Rural consumption is changing. Peasants desire to go to large markets to select and buy their goods. Supply and marketing cooperatives can pool their resources to set up integrated markets in towns and to set up trade centers in county towns and large and medium size cities. The goods would be concentrated in one place for the convenience of the masses.

6. Actively start up businesses to serve rural enterprises. In many places rural enterprises develop very quickly and they need circulation and other services. Therefore supply and marketing cooperatives should actively start up businesses for the raw materials, storage and circulation services of these enterprises.

7. Energetically develop the food, beverage and service trades. As peasant incomes increase so does consumption. Rural conditions are poor now. Food and beverage services and trades which are low quality are far from meeting the needs of the peasants. We must improve rural food and beverage services as soon as possible and set up additional home appliance maintenance and service centers.

8. Develop public welfare services for the peasants, such as nurseries, running water, barefoot doctors, etc.

9. Develop the tourism and gardening trades.

10. Actively develop foreign economic and technical exchanges. We must master business with foreigners and utilize the advanced technology, information, funds and personnel of the world to serve ourselves.

In the opening of new areas of service by supply and marketing cooperatives, we must be coordinated. Supply and marketing cooperatives must be linked to the peasants and to rural enterprises. We must develop intercooperative unity and create unity between basic and higher level cooperatives. If the supply and marketing cooperatives actively develop new areas of service then they certainly will be rural economic service centers which will have a great role in developing the rural economy.

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28 June 1985

FOREIGN TRADE AND INVESTMENT

PRC-JAPAN SYMPOSIUM OPTIMISTIC ON TRADE BETWEEN SMALLER BUSINESSES

HK230545 Beijing CHINA DAILY in English 23 May 85 p 2

[By staff reporter]

[Text] A Sino-Japanese economic symposium that ended yesterday in Beijing concluded that the 21st century holds glowing prospects for trade between smaller businesses in both countries.

The symposium provided a platform for an exchange of views between Japan and China's more remote, underdeveloped areas.

A Japanese economist said there are more than 400,000 small and medium enterprises throughout Japan interested in offering their experience and expertise to China's modernization. But information about remote areas such as Tibet, Xinjiang and Hunan is so scanty that new avenues of dialogue must be opened, he said.

An official from Qinghai spoke about the western province's rich resources and lack of funds to develop them. He asked how Japanese business circles might help China in its stated goal to exploit the western frontier in coming years.

Yoshizane Iwasa, leader of the Japanese delegation, responded that Japan needs more information about Qinghai before any help can be mobilized.

"Ground work is necessary," he said.

A Japanese economist asked what measures China would take in face of a shortage of foreign currency exchange.

An official from the Bank of China said China has always followed a policy of overall balance in foreign exchange.

Imports far surpassed exports in China's foreign trade last year, resulting in the imbalance, he said.

"Bank of China's credibility is ranked in the AAA category," he added.

An Gang, deputy leader of the Chinese delegation, said trade and investment relations between small and medium enterprises have become a trend in today's world economy.

CSO: 4020/249



FOREIGN TRADE AND INVESTMENT

STATE COUNCIL ISSUES TRAVEL AGENCY REGULATIONS

OW211100 Beijing XINHUA in English 1039 GMT 21 May 85

[Text] Beijing, 21 May (XINHUA)--A state Council document published today sets standards and minimum registered capital requirements for travel agencies.

Agencies bringing tourists into China and looking after them in the country must register 500,000 yuan, the new regulations say.

Those dealing with overseas tourists in China but doing no business abroad must register 250,000 yuan.

Both categories are subject to approval of their lodging and travel services and of the skills of their managers, workers, interpreters and guides.

Agencies for Chinese tourists in China need only register 30,000 yuan.

Foreign, Hong Kong and Macao agencies must have national tourism administration permission to open branches in China, but such branches may not bring tourists into China or look after them.

China received over 12 million tourists from outside the people's republic last year, 30.4 percent more than in 1983. Internal tourism is also rising.

There are about 1,000 travel agencies in China. The government is encouraging collectives and individuals to open more and compete.

The regulations urge all travel agencies to improve their management and services and pay attention to tourists' comments and criticisms.

Chinese law makers are currently discussing China's first tourism law.

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## FOREIGN TRADE AND INVESTMENT

### CHEN MUHUA DISCUSSES WAYS TO IMPROVE WORK IN TOURISM

Beijing LIAOWANG [OUTLOOK] in Chinese No 6, 11 Feb 85 p 13

[Article by Huang Guowen [7806 0948 2429]: "Chen Muhua Discusses Tourism"]

[Text] The sea is to the east of Zhejiang. The scenery is beautiful and the resources for tourism are abundant. A short while ago, Chen Muhua, member of the State Council and minister of the Ministry of Foreign Economic Relations and Trade, visited 10 cities and towns in Zhejiang Province. She wanted to see the scenic spots and historical sites at each place that she visited and to understand the situation and problems with reference to tourism. In Shaoxing, she told comrades in the trade that we cannot regard tourism as purely a foreign affairs activity. In a certain sense, the development of tourism is one way to do foreign trade. When foreign guests come they stay in your hotels, eat your food and buy your goods. This is equivalent to exporting your goods because you earn foreign exchange and you save some effort as well as customs duties. She said that the crux of the matter is to improve our work, study business management and be able to attract tourists and make them stay. We must make visitors think about returning here and not let them say "that's enough" after one visit.

Chen Muhua feels that we must think of a way to attract the customer's "desire to purchase" just as in business. Those engaged in the travel business must motivate the "desire to travel" via excellent management and wholehearted service. Chen Muhua gave a speech about tour guides at the famous Yantang Shan Mountain scenic area in southern Zhejiang that was thought-provoking. She said that China has a saying: "Hearing the scenery is better than seeing it." If foreigners travel in China alone without a guide, they will see mountains, water bodies, trees and temples everywhere and they will soon feel that this is dull and boring. But if they have a good tour guide who tells them the fine points of what they are seeing and spins together the historical allusions, myths and legends, then the guide will provide an explanation that is vivid. The "dead" scenery will come alive and the tourist will definitely feel that the more he travels, the more interesting it is. Therefore, tour-guide training is very important, no less so than that of an engineer in an industrial enterprise. At present some comrades pay a great deal of attention to travel facilities and furnishing but they neglect their guides. This is incorrect. We must earnestly train guides and open special schools for them. It is difficult to be a good tour guide. Good guides must know the astronomy above and the geography below. They must have a knowledge of things ancient and modern and

Chinese and foreign and they must be well-versed in an area's history and scenery. They also have to know something about Buddhism and Taoism. In sum, they must be highly accomplished in a cultural sense. Top-grade tour guides should be Ph.D.s while special-grade guides should be the equivalent of college professors. Is this elevating tour guides to an overly high position? No, because their role is so important. I have run into tour guides like this abroad. Besides guides, service personnel are also very important. We must allow visitors to amuse themselves sufficiently and to feel that clothing, food, shelter and transportation are comfortable and enjoyable. The crux of the matter once again is service. We must train service personnel to regard tourists as their own family and friends. Now some service personnel pull long faces all day but when the guests come they do not make a move. These workers do not help guests with their luggage or help them find their rooms but just watch them "be self-reliant." How can we keep guests here when things are like that?

Chen Muhua also said that the tourism industry must pay attention to attaining high results at low costs. Some areas have but one or two famous scenic spots but they want to set up full ancillary facilities. Waste often results. The correct thing to do is to make an earnest assessment of one's local tourism resources and make a good development plan that is suited to the local situation. Some experts should also be invited to investigate the place and make plans, offer ideas and opinions. Tourism facilities can be more complete in places where there are many famous scenic spots in a concentrated area that cannot be seen in one day. In places like Haining people only think about visiting the Qiantang tidal bore and it is unnecessary to spend the night so there is no use building hotels and high-class restaurants. A supply of parking lots, fast-food shops and tea houses is what is more important. Places like Mogan Shan and Putuo Shan Mountain where there are hot springs and people can swim and mountain climb should be opened to the outside and convalescent and rest homes built. Then the places will be more than seasonal; money can be earned four seasons per year.

When developing the tourism industry we must also pay attention to having an integrated business. Chen Muhua asked: Why do some places not earn money after opening tourist facilities? The main reason is that they are not making business breakthroughs. Their eyesight is too narrow and should be wider; these folks only focus on the income from hotels, restaurants and tickets. For example, Wenzhou has abundant seafood resources as well as Yantang Shan Mountain. It is entirely possible for Wenzhou to rely on tourism to boost its food industry. By opening some food plants, local seafood can be made into food for tourists. The food can be first served to local tourists and once some experience is gained the food can be supplied to other scenic spots and maybe even exported to expand the supply. In this way, the more that you do to a place, the better the livelihood is. Is this not a good way to hit several birds with one stone?

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## FOREIGN TRADE AND INVESTMENT

### MORE FIRMS UNDERTAKING OVERSEAS PROJECTS

OW061153 Beijing XINHUA in English 0908 GMT 6 Jun 85

[Text] Beijing, 6 Jun (XINHUA)--Nineteen Chinese firms signed 138 contracts for overseas construction schemes and labor services in the first quarter of this year, a jump of 42 percent over the same period of 1984.

The deals were worth 415 million U.S. dollars, a rise of 23 percent, the newspaper, INTERNATIONAL BUSINESS, reported today; construction contracts accounted for about 400 million U.S. dollars.

The Beijing-based China Construction Engineering Corporation took the lead by striking 23 deals to the tune of 244 million U.S. dollars.

Three new companies for overseas construction projects and labor services were launched during that period, bringing the nation's total of such firms to 57, the paper says.

One is the China Electronics Import and Export Corporation, another is an Islamic firm in the Ningxia Hui Autonomous Region, and the third is based in the Heilongjiang provincial capital of Harbin.

China has been providing labor services and contracting for projects in foreign lands since 1978, mostly in the Middle East.

The country had 49,000 skilled workers and technicians on overseas jobs by the end of last March, nearly 50 percent more than in the same period of last year.

More than half of them are working abroad on labor service contracts; the rest are engaged in projects being built by Chinese companies.

Chinese firms have won four contracts each worth more than 100 million U.S. dollars since 1983, the paper says, adding that negotiations for similar big deals are under way.

CSO: 4020/249

## FOREIGN TRADE AND INVESTMENT

### PRC-WESTERN EUROPE TRADE GROWS, POTENTIAL GREAT

OW011318 Beijing XINHUA in English 1254 GMT 1 Jun 85

[Text] Beijing, 1 Jun (XINHUA)--Western Europe is now China's second largest trading partner after Japan, says an article in the latest issue of the weekly BEIJING REVIEW.

Since 1975, it says, when formal relations were established between China and the Europe Economic Community (EEC), economic cooperation has gone beyond ordinary bilateral trade to co-production, joint ventures, joint bidding and contracts for labor services.

But there is still tremendous potential for bilateral cooperation, the article states. While Western Europe accounts for 30 percent of the world's trade, the article notes, it takes up only 14 percent of China's foreign trade and 0.4 percent of its own.

Bilateral trade came to nearly seven billion U.S. dollars last year, a 140 percent jump between 1975 and 1983.

Western European countries had invested 900 million U.S. dollars and set up 30 joint ventures in China by the end of last year, the article says.

These include a Sino-Belgian company producing, installing and repairing digital telephone switching equipment and the Shanghai Yaohua-Pilkington Glass Co manufacturing 5.5 million cases of plate glass a year. Both are the largest enterprises of their kind in China.

China and EEC signed an agreement last month to enhance cooperation in industry, agriculture, science, technology, energy, communications, transport and personnel training.

Several countries, including Denmark, Belgium, Italy and Switzerland, have agreed to extend soft loans repayable in Chinese currency.

A Federal German company bested fierce competition earlier this year to sell China a hot strip rolling mill worth 100 million U.S. dollars. A French company won a contract for the sale of 150 electric locomotives, also worth 100 million U.S. dollars.

Nevertheless, the article says, of all the direct foreign investment in China, Western Europe is responsible for only 10 percent.

Chinese leaders now believe expansion of trade relations depends on the EEC increasing imports, technology transfer and investments.

They also expect Western Europe to make it easier for Chinese products to enter its markets and lift some restrictions on technology transfer.

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FOREIGN TRADE AND INVESTMENT

COUNTRY TO SIMPLIFY AND DECENTRALIZE FOREIGN TRADE APPARATUS

HK031245 Hong Kong AFP in English 1212 GMT 3 Jun 85

[Article by Caludia Mo]

[Excerpt] Hong Kong, 3 Jun (AFP)--China is to institute major reforms cutting red tape in its foreign trade apparatus starting this year, a top Beijing banker said here today.

Wang Deyang, vice-president of the state-run Bank of China, told an international financial conference that Beijing would simplify and decentralize its trade administration by giving more decisionmaking power to low-ranking officials to help expedite transaction agreements with foreign businessmen.

The Chinese banking representative however admitted that it would be "a long process" before China's bottom-level trade officials become experienced enough to deal directly with their foreign counterparts.

This could pose a hurdle to foreign investors eyeing the China market, according to Anthony Russell, the China area manager of the Hong Kong and Shanghai Bank, the colony's largest bank.

Stressing that China was keen to attract more foreign investment, Mr Wang told the International Monetary Conference that "Beijing may consider at the end of this month lifting part of its foreign exchange restrictions (which were imposed in March).

"The restrictions have been necessary," Mr Wang said. "In the past year our (private) enterprises have been spending too much and at too fast a pace." "From now on we will try not to import so many cars, TV sets and refrigerators," he added.

Mr Wang said China would usher in an import-export agency system. "Foreign trade enterprises will provide their services on a commission basis, and the manufacturers and importers are free to choose their agents, but will assume responsibility of their profits and losses."

The Bank of China delegate also assured overseas investors that Beijing's economic "open-door" policy would be sustained, while Hong Kong Bank's Mr Russell described China as a good investment target.

FOREIGN TRADE AND INVESTMENT

ESTABLISHMENT OF CHINESE POLITICAL RISK INSURANCE URGED

Fuzhou FUJIAN LUNTAN [FUJIAN FORUM] in Chinese No 1, 5 Jan 85 pp 48-49

[Article by Lin Xiangyan [2651 4382 3508]: "The Special Economic Zones Should Develop 'Political Risk' Insurance Activities"]

[Text] Insurance has a peculiar role in the construction of the Special Economic Zones [SEZ] that still has not aroused sufficient respect in various circles. To recognize and bring into full play this peculiar role of insurance has profound significance with respect to attracting foreign investment from broad corners and to accelerating the construction of the SEZ's.

Insurance has now become the basis of capitalist economic activities. Practically all capitalist economic life and all its aspects are inseparably linked to insurance. Capitalists regard as fearsome and risky behavior those economic activities that are uninsured. "Political risks" have often occurred in the history of various capital-exporting countries. This so-called "political risk" is one of the categories of international insurers, namely, "foreign investment insurance." This refers to cases where a political conflict arises between the investor and the host country and so the host country issues an order not to accept or to take over foreign assets; to cease or cancel foreign remittances; to cancel imports and exports of goods, etc., resulting in economic losses for the investor. International investors have tasted to the full the bitterness of political risks.

Capitalist economic crises compel capital to be exported. Capitalist investors always look toward insurance as a way to solve the "political risk" problem of exporting capital. Nevertheless, the contemporary international insurance market cannot meet the needs of investors. Few international insurance companies offer "political risk" insurance; only a few developed capitalist countries offer it publicly and several insurance companies with huge capital resources offer it privately. Profit is the decisive motive for insurers. Everyone regards the development of "political risk" business as a desperate, reckless activity. To guard against falling into difficulties, on the one hand, insurers strictly control insurance liabilities within a limited scope that does not satisfy the investor and cannot remove all risks to economic profits; on the other hand, insurers raise insurance costs. For example, several American insurance companies charge rates as high as 10 or 14 percent of the investment for "nationalization insurance" and "remittance insurance,"



which is more than tenfold the cost of general insurance. This greatly increases investment costs and reduces the competitiveness of the goods produced through the investment. This problem which investors face is a large hindrance to the development of economic profits by both capital-importing and -exporting countries.

China is a socialist country. It has a firm dictatorship by the people and a political situation that becomes more stable and united each day as well as a firm and unswerving policy of opening to the outside world, so in China there is no longer a question of "political risk." Precisely because this is the case, there is still no drive on the part of Chinese insurers toward developing such business. Yet practice proves that the swift development of China's SEZ construction objectively requires that China's insurance companies must take the initiative to develop "political risk" business and solve the real problem international investors face right now. Because: (1) Using insurance measures to solve "political risk" problems became a necessary demand of international investors long ago. At present only if China's insurance companies show initiative toward developing "political risk" insurance business can we actually solve the problem facing international investors. If we do not develop this business then many investors will incorrectly think that we dare not undertake this task when we treat investment negotiations seriously and claim that there is no "political risk" problem in China. (2) If China's insurance companies show initiative toward developing this business, then this has to mean that international insurers will boldly offer insurance to us and international insurance prices are bound to fall, providing broad areas for investors as well as lowering their costs and increasing economic income. (3) It is advantageous for the development of China's burgeoning insurance industry and the increase of the state's foreign exchange income.

The drive to develop "political risk" insurance by Chinese companies must commence from the solid basis of accelerating the construction of China's SEZ's and it must accurately reflect the objective form of China's consolidated state power. This must lead to the creation of socialist "political risk" insurance with unique Chinese characteristics that surpasses the usual scope of international insurance liability. The liability will not only mean accepting a sum and compensating for it but also bearing twice or even three or four times the sum. For example, if \$10,000 worth of capital assets are insured and a "political risk" arose meaning a total loss, the insured could get double or even compensation several times over from Chinese insurance companies. Or we could offer the highest liability at the lowest cost meaning that the insured investor could get full rights to the insured assets by paying a small insurance fee according to specified low rates. We might also consider implementing both of these methods.

One basic lesson learned from the experience of exporting capital is that to conscientiously avoid political risks, the economic interests of the investor will be truly guaranteed once any political dispute arises between the insurer and insured countries resulting in a risk to the investment only if the insurance company is in a third country that is neither that of the insurer nor the insured. At present, it would be hard for China to act as the third country concerned for the aforesaid problem facing investors without a sufficient

material basis. China's insurance companies are state-run which leads people to have reason to believe that once an insurance risk happens, the insurance companies will be powerless. Capitalists are always realists when it comes to economic interests. In general, most of them cannot have full faith in our credit. Therefore, at the same time that China's insurance companies undertake this business, we must provide a third-party guarantee, outside of our territory and at least equal to the invested assets, that is acceptable to both sides. The Bank of China [BOC] is sufficient to act as a middleman; it has branches and operations registered locally all over the world. The investor has to pay fees to the middleman as well as insurance rates but this would still be a great savings over the present insurance rates paid to third-country insurance companies. In sum, it is imperative for China's insurance companies to develop jointly "two doors to the same place" with the BOC for "political risk" insurance.

Our advocacy of this peculiar kind of "political risk" insurance is beneficial to the investor because it really removes the obstacles to investment. There are advantages for China too: (1) Providing this peculiar kind of insurance essentially means utilizing real economic means to give proof of a most substantial type of the authentic state of China's political foundation to foreign investors and it dispels their fear of trouble in the rear. (2) The capital which is invested has an especially solid economic guarantee that is most likely to be of interest. Such services have to draw the attention of investors throughout the world and they have the function of attracting foreign investment from afar. (3) China's insurance companies and the BOC have no real insurance assumptions or guarantee responsibilities, so offering these services would bring the insurance fees paid by investors to China. At present, some governments of developed capitalist countries have stipulated legal responsibilities for Chinese investment risk guarantees to drum up foreign investment. Some governments have made agreements with China regarding economic activities to solve this problem. Nevertheless there are still a good many capital exporting countries and areas investing in China that must still rely on the role of insurance. Thus it is obvious that a pressing task for accelerating the construction of China's SEZ's is to press for the development of China's insurance industry.

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## FOREIGN TRADE AND INVESTMENT

### HOW PATENT LAW FACILITATES TECHNOLOGY TRANSFER

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 3, 27 Mar 85 p 3-4

[Article by Prof Tang Zongshun [3282 1350 5293], adviser to Patent Office of PRC: "China's Patent Law Promotes Technology Transfer Between China and Foreign Countries"]

[Text] The patent law of China was promulgated on 12 March 1984 and will be in force as from 1 April 1985. This is an important measure in opening the country to the outside world and invigorating the economy at home. To greet the enforcement of this law, the NPC Standing Committee adopted a resolution on 14 November 1984 to participate in the Paris Pact for the Protection of Industrial Property. This pact will be applicable to China as of 19 March 1985.

The enforcement of China's patent law and the Paris Pact's effects on China will mean the opening of China's market of technology to the citizens of the Paris Pact's member nations. Beginning 1 April 1984, these citizens, as well as those who are entitled to the same privilege under China's patent law, can come to China to file their applications for patent rights and request priority right in their first application in foreign countries. They will never be ignored or discriminated against; on the contrary, they will receive the same treatment as given to Chinese citizens. This marks a new step in China's implementation of the open door policy.

To accelerate its industrial modernization, China has to make use of foreign capital and to import advanced foreign technology. In the past, in the absence of any patent law, foreigners' new technologies could not enjoy protection for their patent rights in China. The technologies transferred to China could only be protected in the form of contracts under which the Chinese transferees had only the obligation of not transferring or divulging the technologies to other persons, and would be punished for contract violation. What was legally protected was only the contract and its binding effects, but not the technology transferred by the foreigner. Furthermore, the contract was binding only on the parties concerned, but not on a third party. Thus, protection from contracts cannot be adequate, and that was why the owners of technologies, with the misgiving that the Chinese transferees would propagate the technologies at will, were unwilling to transfer new technologies to China, except for much higher prices. One of the purposes of China's patent law is to protect the patent rights of new foreign technologies and to encourage the transfer of such technologies to Chinese enterprises.

In working out its patent law, China has noted all the principles behind the Paris Pact, studied the patent laws of many foreign countries, and included appropriate stipulations of many questions of substance and procedures on the basis of China's technical and economic conditions. It is a modern patent law which is entirely consistent with the spirit of the Paris Pact. From the international point of view, there are three points in China's patent law which deserve attention. first, the strict requirements for the grant of patent right; second, the dependability of the patent right granted; and third, the full protection of these rights.

China's patent law protects inventions, utility models and designs. This law provides that any invention for which patent right may be granted must have not been publicly disclosed in publications in the world or publicly used or made known to the public by any other means in the country. It also provides that the invention must have prominent substantive features and represent progress; that the utility model likewise must have substantive features and represent progress; and that the invention or utility model can be made or used and can produce positive effects. From this, we can see the strict requirements under the Chinese patent law for inventions and for the creativeness and practical applicability of the utility models.

In order that the invention can qualify for the grant of patent right according to these conditions, China has adopted the system of deferred examination of the application as to substance. If the application for a patent for invention is found to be in conformity with the law upon a preliminary examination, it will generally be published within 18 months from the date of filing. Then an examination as to substance will be conducted on the applicant's request. If such a request is not made, the application shall be deemed to have been withdrawn. After the examination as to substance, and while the Patent Office is preparing to grant the patent right, a third party may file an opposition which will be examined by the Patent Office. Before rejecting the application, the Patent Office should give the applicant an opportunity to state his case. After the rejection of his application, the applicant may request the patent Reexamination Board for a reexamination, and if he still disagrees with the result of the reexamination, he can appeal to the people's court. Thus we can be sure of the trustworthiness of the patent rights after such careful examinations.

The patent rights of foreigners in China are special rights. No entity or individual may, without the authorization of the patentee, can make, use or sell the patented products, or use the patented process for production or business purposes. The entity or individual must conclude with the patentee a written license contract and pay the necessary fees. The licensee has no right to authorize any entity or individual, other than that referred to in the contract, to exploit the patent. Violation of these regulations and exploitation of other people's patents will constitute an act of infringement of patent rights. China's patent law prescribes two liabilities for the infringer. Generally, he will be persecuted for his civil liability, for which he will have to pay for damages besides stopping the infringing act. If any person passes off the patent of another person, and the circumstances are serious, he will be persecuted for his criminal, in addition to his civil, liability. The person charged with such infringement should generally be tried upon the evidence presented by the plaintiff. However, according

to China's patent law, if an infringement dispute arises and the patent for invention is a process for the manufacture of a product, the entity or individual manufacturing an identical product is required to furnish proof of the process used in the manufacture of its or his product in order that the interests of the patentee can be protected. Furthermore, according to China's patent law, when the patentee does not exploit his patent in China, the Chinese Government will not commandeer or nullify it. It is true that China's patent law includes the compulsory license for exploitation of patents, but it applies to only a patentee who fails to exploit his patent for no valid reason, and the scope of application is smaller than that prescribed by the Paris Pact. As we can see from these aspects, the patent rights enjoyed by foreigners in China are amply protected.

The new technologies of foreigners patented in China are required to be exploited in China according to the patent law. The exploitation can take the following forms:

- (1) With permission by the Chinese Government, enterprises can be established in China to exploit their own patents.
- (2) Joint ventures can be organized with Chinese enterprises or individuals, and the patent rights can be used as an investment. The patent can then be exploited by these joint ventures.
- (3) Chinese enterprises, joint Chinese-foreign ventures, enterprises with foreign capital, or individuals are permitted to exploit the patents.

In the second and third forms, the patentee can also (1) supply the necessary equipment and the technology to be used in exploiting the patent; (2) further exploit the secrets of the technology; and (3) supply various forms of services, such as feasibility studies (including studies of the market and the feasibility of profitmaking), personnel training, enterprise management, and so forth.

The patent license usually includes the transfer of technological secrets in addition to the patented technologies themselves. These secrets are generally used in manufacturing the patented products or in the manufacturing process. Since these products and manufacturing processes are protected by patents, these secrets are also indirectly protected.

After the enforcement of China's patent law, as mentioned above, China will provide patent protection for the technologies transferred from foreigners to China according to their applications and after due examinations. This will greatly promote the trade of technologies between foreigners and Chinese people. An upsurge of modernization is now being whipped up in China, and suitable advanced technologies are required in all fields. There is a huge market for technology in China. We welcome the people bringing in their technologies from various countries and their applications for patent rights in China.

FOREIGN TRADE AND INVESTMENT

FIRST NATIONAL CONFERENCE OF PATENT OFFICE HELD

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 3, 27 Mar 85 pp 5-7

[Article by Liu Jiyang [0491 3423 2254]: "Enforcement of China's Patent Law Welcomed"]

[Text] With the State Council's approval, the Patent Office of China recently held its first national conference on patent work. Among the participants were comrades from various provinces, autonomous regions and municipalities directly under the central government; from the relevant ministries and commissions under the State Council; from the larger cities and those cities where special economic zones [SEZ's] are located; from the institutes of higher learning concerned, the patent administration; and the comrades engaged in the study of mathematics, law and industrial property.

This was a preparatory conference for greeting the enforcement of the patent law beginning 1 April this year. After studying and discussing this law, the participants gained a better understanding of the guiding thought for the establishment and implementation of China's patent system. This system provides legal protection for technical inventions, and recognizes the achievements of the mental labor of intellectuals as commodities which should be transferred for a price. This marks a big step in social progress. Implementation of the patent law is of great significance in developing the creative spirit of the Chinese nation; in legally ensuring that scientific and technological knowledge and talents are respected so that people with lofty ideals can find some way to serve the country; in creating the conditions for developing the socialist technology market, promoting the flow of knowledge and stimulating science and technology; and in fulfilling the international obligations of protecting industrial property and developing international technology exchange and cooperation. Therefore, we must set up a patent system that is suitable for our national conditions; carefully attend to the applications for patent rights and to the examination and approval of these applications; give play to the two major functions of the patent system in protecting the transfer of technology for a price and in promoting the exchange of technological information; and do the various preparatory jobs well in order to ensure the smooth implementation of the patent law.

The meeting held these views:

1. By protecting the legitimate rights of the inventors in a legal form and with economic means, the patent system can more effectively promote the technical and

economic prosperity of the country and arouse the enthusiasm of the broad masses of scientific and technical personnel in invention and creation.

2. In implementing the patent law, efforts should be made to develop the technology market. We must form the strategic thought that economic development depends on science and technology, and clearly understand that under the conditions of socialist commodity economy, technology is also a commodity which can be circulated, bought or sold. Opening the socialist technology market and subjecting technical achievements to the regulative role of the market are the natural outcome of socialist economic development. Therefore, the leading cadres at various levels must regard the knowledge of patent administration and technological trade as compulsory subjects to be studied so that they may be familiar with the patent law, the provisional regulations on technology transfer and the other economic laws that will soon be promulgated, be able to master the skills of technical and economic management, and become knowledgeable persons. They must also quickly set up and perfect the working systems for patents and for the technology market and make contributions to the implementation of patent law, the development of the technology market, the accomplishment of the grand objective of "quadrupling," and the outstanding success of the Chinese nation.

3. One of the purposes of the patent law is to help in the importation of advanced foreign technologies. In the past, in the absence of a patent system in our country, foreigners had their misgivings in exporting technology to China. Now that the patent law is in force, the legal protection provided thereby will attract more traders, enterprises and scientific research units of foreign countries to China to apply for patent rights and to supply advanced technologies. On the whole and in the long run, implementation of the patent system will give impetus to the study, importation and mastery of advanced foreign technologies.

4. The work related to patent rights is a new undertaking which must have the full support of the leading comrades in various regions. This support is necessary particularly during the establishment of the patent system when we lack experience and are confronted with many difficulties. The leading comrades of the State Council have called on the party committees and governments in all provinces, municipalities and autonomous regions to support this work. We will encounter difficulties in the "four modernizations" if we do not have technical progress and fail to encourage invention and creation, to highly regard the importation of technology, and to actively popularize its application. We must carefully attend to the work related to patent rights, arouse the enthusiasm of scientific and technical personnel, and form a technology market before there can be a vigorous development in production.

5. Implementation of the patent system must embody the characteristics of socialist China. The relevant departments in charge under the State Council, and the governments of various provinces, municipalities and autonomous regions have the right to designate the units to exploit the patents of important inventions, but the designated units cannot exploit the patents without paying for them. They must pay the units possessing the patent rights according to regulations.

6. Experiences in patent work were exchanged at the meeting. These experiences were rich in content and of unique characteristics, and were very helpful to various localities.

7. The Patent Office must uphold the spirit of reform in its work, take "service" as its guiding thought, use the "three advantages" as the criteria of examination, and set up a system of patent and economic work with its Chinese characteristics. The Patent Office must promote technical progress, provide convenience to people applying for patent rights and be prompt in examination and approval according to law. It must also publish and distribute the "Detailed Rules in the Implementation of Patent Law" and the "Guide to Application for Patent Rights" as soon as possible. The key to successful patent work is qualified personnel, and a specialized contingent that has been trained in law, patent rights and economics must be formed. In accordance with the documents approved by the State Council, all the provinces and municipalities and all ministries and commissions must establish the necessary departments of patent administration and set up and develop the patent agencies which will be responsible for their own profits and losses. These agencies belong to a type of service trade or tertiary industry. All the personnel will be paid according to the principle "to each according to his work." Personnel training is now the urgent need of the moment, and we must attend to the training of patent administration personnel vigorously and in a planned way.

8. A preparatory committee for the China Industrial Property Institute was formed not long ago. The formation of such an institute is necessary for economic restructuring. If we want to enforce the patent system, to import advanced foreign technologies, and to develop international technical exchange and cooperation, we must fulfill the international obligations of protecting industrial property. Mutual protection of industrial property is an important aspect of our open door policy and the principle of equality and reciprocity in international contacts. Therefore, many academic and theoretical problems have to be studied in our protection of industrial property. We have already joined the "Paris Pact for the Protection of Industrial Property." In other words, we have expressed to the world our intention to abide by the regulations of the Paris Pact and undertaken the international duty of protecting the industrial property. Therefore, the formation of an industrial property research institute in our country will help us to acquire the skill of protecting industrial property, to explore and study the new and the traditional theories of such protection, and to correctly handle the problems of such protection that may involve foreign countries. For this reason, we feel even more keenly the great significance of forming a legal concept of protecting industrial property and of learning to use legal weapons for such protection.

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## FOREIGN TRADE AND INVESTMENT

### SHANGHAI'S RESPONSE TO INCREASED PATENT APPLICATIONS

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 3, 27 Mar 85 pp 6-7, 4

[Article by Xu Yiping [7312 0001 1627], director of Shanghai Patent Office:  
"Further Strengthen Shanghai's Patent System"]

[Text] I. Situation of Patent Work in Shanghai

#### A. Patent Applications in Shanghai Are Now Numerous Because of the Rapid Development of Science and Technology and the Increase in Inventions

Since 1981, Shanghai Municipality has made 1,945 important achievements in scientific research, and 56 of them won 11.4 percent of the total national awards for invention. It has also made very rapid progress in upgrading and updating industrial products, in transforming the production technologies of enterprises, and in technical development, all by relying on science and technology. In 1983, the city won gold and silver medals for 75 research projects and completed 96 technical transformation projects. As the largest industrial city in the country, Shanghai has a fairly large concentration of technical talents. There are more than 300,000 scientists and technicians in the city and efforts in inventions are very intensive. Therefore, since 1 April when the enforcement of the patent law formally began, there has been quite a spate of patent applications.

#### B. Close Economic and Trade Relations and Technical Cooperation With Foreign Countries Brought About a Fairly Large Number of Patent Applications From Foreigners

Since the adoption of the open door policy in 1979, Shanghai's economic development has gradually changed over from the internal to the external type, and the scope of external economic and trade activities has continued to expand. Shanghai's contacts with the international market have become increasingly closer and the forms of international economic cooperation have also become more diversified. At present, Shanghai has established trade relations with 166 countries and regions and nearly 30,000 foreign customers. In 1983, its volume of exports reached \$3.65 billion in value and 75 percent of the exports were industrial products. In its economic and technical cooperation with foreign countries, Shanghai has already approved the establishment of 21 joint Chinese-foreign ventures and undertaken 23 projects of cooperative production, 155 projects of

compensatory trade, and 10 leasing projects with foreign traders. In all these projects, foreign traders and Hong Kong entrepreneurs have directly invested a total of about \$550 million. In 1979-1982, Shanghai imported 290 items of technologies and equipment and the transactions amounted to \$300 million in value. In 1983, there were 262 transactions of more than \$200 million in value, and from January to September 1984, the value of transactions for which agreements were signed by Shanghai amounted to more than \$200 million. Because of the continued economic and trade expansion, both in scope and in substance, and the increase in technical cooperation and importation of technology, the number of patent applications filed by enterprises with exclusive foreign capital, by joint Chinese-foreign ventures, and by foreign enterprises and individual foreigners in Shanghai is expected to increase fairly considerably. For external economic and trade activities, technical cooperation and importation of technology, many enterprises and establishments are in urgent need of consultation and investigation services in various forms concerning patents. Such services include information on the patents owned by foreign factories and on the validity of patents, the appraisal of the technologies of some factories as to how advanced they are, assistance in deciding on the technologies to be imported and on the strategy of negotiation and in drafting contracts, suggestions on the prices of imports and the methods of payment as so forth.

#### C. Patent Work Should Serve Shanghai's Economic Construction More Effectively

Along with the enforcement of the patent law, the main task in Shanghai's patent work is to develop various forms of services to suit Shanghai's economic and technical developments, besides preparing to handle the applications. The work should include the following aspects: patent consultation and investigation; agency service in filing patent applications at home and abroad; agency service in litigation; consultation in making offers in technology transfer contracts; acting as media in technology transfers; offering funds, subsidies or loans to individual inventors in their patent applications; assistance with patent documents, and so forth. To do these jobs well, there is an urgent need for a contingent of patent lawyers and patent agents to be trained. At the same time, training should be stepped up for the diffusion of knowledge concerning patents and technology transfers. Education should also be conducted among the cadres and technicians of those factories and enterprises which have their own research institutes, and among teachers and students of physics and engineering universities, so that they can learn how to make good use of patent documents, how to buy other people's patents, and, after a successful invention, how to file the patent application, how to sell the license, how to carry out a technology transfer and how to sign the required contracts. There are also many other services to be rendered in the process of technology transfer in the country.

#### II. Further Strengthen Shanghai's Patent System to Greet the Introduction of the Patent Law

Shanghai will further strengthen its patent system in order that its patent work can more effectively serve economic construction, meet the challenge of the open-door situation, and greet the introduction of the patent law.

#### A. A Patent Administration Organ Should Be Established

The Shanghai People's Government has recently decided to establish a Shanghai Municipal Administration Bureau. This bureau will be under the dual leadership of the Science and Technology Commission and the Economic Commission of the municipality, with the former taking the lead, and guided by the PRC Patent Office in business operation. It will have the dual function of law enforcement and administration, and its main duty is to examine the rewards for inventions and to report its findings to the higher authorities.

All specialized bureaus and companies will designate their own personnel to be responsible for patent work, while all institutes of higher learning, independent research institutes of localities and key enterprises should also in principle appoint their own patent administration personnel.

#### B. The Patent Service Organs Should Be Strengthened

The Shanghai Patent Office was established after approval by the people's government of Shanghai Municipality. This office has now on its staff 40 agents specialized in patent work. It has been designed by the State Council as an agency in dealing with foreign countries as well as doing domestic patent work. The main duties of this office are:

1. Offering consultation and agency services to foreigners, foreign enterprises and other foreign organizations in filing patent applications in China as commissioned.
2. Offering consultation and agency services to Chinese entities and individuals, and foreign enterprises, joint Chinese-foreign ventures and cooperative enterprises in China in filing patent applications as commissioned.
3. Offering consultation and agency services in the exploitation of patents and the transfer of technologies as commissioned.
4. Offering consultation and agency services as commissioned in the arbitration and litigation of disputes over the acquisition of patent rights, the validity of patents and the infringement of patent rights.
5. Assigning competent patent lawyers or agents as patent advisers throughout the year for people in China on whose behalf the bureau is acting.
6. Setting up patent funds to assist small and medium Chinese enterprises, non-professional inventors or designers financially in filing patent applications.

In addition, all enterprises and establishments in Shanghai will gradually train professional agents and set up a patent agency service department.

The Shanghai Science and Technology Information Office will further intensify its service in patent documentation so as to make better use of the documents and to improve the quality of service with modern methods.

C. A Department Should Be Set Up for Training Patent Cadres

D. A Mass Organization Should Be Formed for Patent Work so as To Promote the Exchange of Patent and Academic Experiences.

Shanghai will organize a Shanghai Municipal Patent Agencies Association and a Shanghai Know-How Proprietary Right Research Institute.

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FOREIGN TRADE AND INVESTMENT

BRIEFS

PRC-SWISS ECONOMIC ASSOCIATION--Geneva, 30 May (XINHUA)--The Swiss-Chinese Economic Association was founded here today to promote trade and economic exchanges between China and Switzerland, especially Swiss Romande. Speaking at the founding ceremony, Rocco Tedeschi, vice president of the association and Chinese Ambassador to Switzerland Tian Jin both wished that economic and trade relations between the two countries will further develop. [Text] [Beijing XINHUA in English 1453 GMT 31 May 85 OW]

JAPANESE JOINT-VENTURE HOTEL--Haikou, 21 May (XINHUA)--Construction of a Sino-Japanese joint-venture hotel began Monday on Hainan Island, south China, now opened to foreign investment. The Haitian Hotel is being built with funds from the development company under the Haikou City Commission for External Economic Relations and 3 Japanese firms--a total of 35 million U.S. dollars. With a 13-story main building, the hotel complex has 523 suites. Other facilities include bars, dance hall, swimming pool, cafes, Chinese and foreign restaurants, tennis court, department store and beauty shop. The subtropical Hainan Island is 32,000 sq km in area. It was opened to foreign investment last year with 14 coastal cities. The hotel will be open by the beginning of 1987. [Text] [Beijing XINHUA in English 1438 GMT 21 May 85 OW]

PRC, NETHERLANDS PROBE PETROCHEMICAL COOPERATION--Beijing, 31 May (XINHUA)--The China Petrochemical Corporation (SINOPEC) and Naamloze Vennootschap DSM of the Netherlands explored the possibility of cooperation in the petrochemical industry in talks here today. Li Renjun, adviser to the State Planning Commission and chairman of the board of directors of SINOPEC, in talks with H.B. Van Liemt, chairman of the board of directors of DSM, discussed cooperation and technological exchanges concerning production of fertilizers, plastics, synthetic fiber and other products. Liemt is leading a DSM delegation here at the invitation of the SINOPEC. It is a major delegation of industrialists from the Netherlands to visit China since diplomatic ties between the two countries were restored to ambassadorial level in February 1984. [Text] [Beijing XINHUA in English 1448 GMT 31 May 85 OW]

CITIC, FRG'S SIEMENS ACCORD--Beijing, 3 Jun (XINHUA)--An agreement on business cooperation was signed here today between the China International Trust and Investment Corporation (CITIC) and Siemens Ag of the Federal Republic of Germany. The agreement stipulates that CITIC will provide information and

consultancy services for Siemens' China operations in the fields of law, taxation, foreign exchange control, finance, wages, accounting and auditing, and administrative management. It will also introduce partners to Siemens and help organize technical and commercial negotiations. They will also co-invest in some projects. In order to strengthen its economic and technical cooperation with Chinese partners, Siemens opened an office in Shanghai in April this year, following the inauguration of its Beijing office a year ago. It plans to set up resident offices in Dalian and Guangzhou soon. [Text] [Beijing XINHUA in English 0829 GMT 3 Jun 85 OW]

PASSENGER PLANE PURCHASE FROM UK--Beijing, 31 May (XINHUA)--China's flag-carrier CAAC has purchased 10 BAE-146 passenger aircraft from British Aerospace, said CAAC official here today. This is CAAC's second aircraft deal this month, following eight Boeings bought from the United States. The contract was signed here Tuesday by CAAC's China Aviation Supplies Corporation and British Aerospace. The medium- and short-range 80-passenger planes will be delivered between June 1986 and 1987. Earlier this year, CAAC bought eight British-made 36-passenger short-range short 360s for routes in open coastal cities. It bought 35 Trident jetliners from Britain in the 1970s. [Text] [Beijing XINHUA in English 0834 GMT 31 May 85 OW]

CANADA, PRC LIVESTOCK DEVELOPMENT PACT--Ottawa, 31 May (XINHUA)--An agreement has been signed between the Canadian International Development Agency and Semex Canada for a five-year livestock development project in China, External Relations Minister Monique Vezina announced here today. Semex will be the Canadian executing agency for the 2.1 million Canadian dollar project aimed at upgrading the technology and management of the Harbin domestic animal breeding center, an artificial insemination center in Heilongjiang Province. Under the agreement, Canada will assist China in upgrading existing facilities for bull handling and semen processing at Harbin. The center's staff will be trained in both Canada and China on modern methods of semen collection and processing and in embryo transfer technology. In addition, new bloodlines will be established through the use of semen from Canadian bulls. Semex is the exporting arm of the Canadian Association of Animal Breeders and has sold semen to more than 60 countries. [Text] [Beijing XINHUA in English 0736 GMT 1 Jun 85 OW]

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## LABOR AND WAGES

### REFORM OF CADRE WAGE SYSTEM URGED

Shanghai SHIJIE JINGJI DAobao [WORLD ECONOMIC HERALD] in Chinese 7 Jan 85 p 3

[Article by Li Shengping [2621 4141 1627]: "Implement Classification of Positions, Reform Cadre Wages; Wage System of Nation's Cadres as Regulator and Lubricant Has Become Ineffective; Egalitarianism Has Become the Most Outstanding Characteristic of So-Called Wages by Rank; There Are Many Shortcomings; We Cannot Just Change the Distribution System of Enterprises Without Changing the Wage System of State Agencies"]

[Text] Now everybody is talking about changing the wage system of enterprises but seldom is concern expressed by the wage system of the nation's cadres. Yet, it is now time for the wage system of the state's cadres to be changed.

The shortcomings of the wage system of the nation's cadres is mainly manifested in the following: There is no standard for scientific measurement, and implementing of an even more thorough "big rice pot" system than exists in the enterprises cannot effectively stimulate the cadres' enthusiasm for work. An overly tight control of wages no longer suits the changes in duties and responsibilities. The wages of cadres are lower than those of the workers in the enterprises, and many state cadres are at the bottom of the nation's "big rice pot." This unreasonable wage system has brought about some troublesome situations. First, government agencies cannot keep "capable workers," the quality of cadres has gone down, and the function of the entire government is weakening. Second, bureaucratic practices are crooked, the practice of "going through the back door" is serious, and the number of cases of corruption and bribery has increased. It can be said that the function of our nation's present wage system for cadres as a regulator and lubricant of government operations has become ineffective. The reform of the wage system of cadres of government agencies must be included in the agenda of important matters.

Although the present wage system of the cadres of our nation's government officials is called a wage system by rank, it has in fact lost its function as a wage system by rank because of the ideological interference of the "left" for many years. Egalitarianism has already become the obvious characteristic of the wage system of cadres of our nation's government offices today.

Therefore, the goal of reforming the wage system of cadres of these offices is to truly give fair pay according to work, more pay for more work, and to

reinstate the original nature of the wage system by rank. In particular, we can reach this goal by following the wage system by job classification of foreign government workers.

The wage system by job classification is implemented on the basis of quantitatively measuring all factors of each job position. Therefore, implementation of job classification becomes the prerequisite for reforming the wage system of the nation's cadres. Implementation of job classification in our nation can be realized by the following concrete steps:

First, the labor personnel department can draw up a job table for cadres of state offices and compile a list of routine operations of the government, then determine the nature, the work load, the responsibility, etc., of each position, objectively and accurately determine the hierarchy and rank of each position, and establish the salaries on the basis of this classification.

In view of our nation's actual situation, it is not possible to thoroughly implement job classification at once. A structural wage system can be implemented first, i.e., to divide wages into several parts, such as a basic wage and a job-related wage and calculate the salaries accordingly. When the time is ripe, the wage system can be shifted to a wage system based on job classification.

9296

CSO; 4006/397



28 June 1985

## TRANSPORTATION

## PRC NEWS AGENCY REPORTS ON RAILROAD CONSTRUCTION PLANS

HK070219 Beijing ZHONGGUO XINWEN SHE in Chinese 1005 GMT 6 Jun 85

[Text] Beijing, 6 Jun (ZHONGGUO XINWEN SHE)--Our reporter has learned from the Ministry of Railways that mainland China is currently engaged in building an eight-eight cross railroad network. When the whole scheme is completed, the length of track in the country will increase from the present 50,000 kilometers to 80,000 kilometers, of which 20,000 kilometers will be electrified, 18,000 kilometers will be double-tracked, and 35,000 kilometers will be useable by diesel locomotives.

The eight main east-west lines to be built are Mudanjiang-Harbin-Manzhouli, Qinhuangdao-Beijing-Baotou, Lianyungang-Zhengzhou-Lanzhou-Urumqi, and Shanghai-Hangzhou-Zhuzhou-Guiyang-Kunming, which are already constructed; the Shijiusuo-Jiaozhou-Xinxiang-Houma-Xian main line is currently under construction; and construction of the Tonghua-Tongliao-Jining, Qingdao-Jinan-Taiyuan-Suide-Zhongwei, and Nanjing-Xiangfan-Ankang-Yangpingguan-Lanzhou lines will begin in sections during the Seven Five-Year Plan.

Six of the eight north-south main lines have already been completed. These are the Harbin-Shenyang-Dalian, Qiqihar-Tongliao-Beijing, Tianjin-Nanjing-Shanghai, Beijing-Wuhan-Guangzhou, Datong-Taiyuan-Luoyang-Liuzhou-Zhanjiang, and Baoji-Chengdu-Kunming lines. Construction of the two other lines, Beijing-Fuyang-Jiujiang-Nanchang-Guangzhou and Baotou-Xian-Ankang-Chongqing-Guiyang-Liuzhou, will be carried out in sections.

These crisscross lines connect China's large and medium cities. As they are also linked to a number of branch lines, they form a comprehensive nationwide railroad network.

CSO: 4006/675

## TRANSPORTATION

### BRIEFS

**BEIJING SUBWAY SYSTEM**--Beijing, 18 Apr (XINHUA)--Beijing's subway now carries over 10 million passengers a month--more than it carried in a year when it was first opened in the early 70's, according to the Beijing Subway Company today. March saw 10.73 million passengers, and January to March figures were 38 percent more than last year. April's daily average has been 366,000, with a record 451,000 on April 7. May 1 is expected to have 550,000. Buses in Beijing carry 9 million passengers daily. The company is planning how to cope safely and normally with the holiday rush. [Text] [Beijing XINHUA in English 0730 GMT 18 Apr 85 OW]

**NEW RAILWAY LINE**--Hangzhou, May 22 (XINHUA)--Authorities in Wenzhou, Zhejiang Province, are preparing to build a 257-kilometer railway line to Jinhua to link the newly-opened port city with the national rail network. City officials said the scheme was part of a big capital construction program to make Wenzhou more attractive to foreign investors. Transport, docks and telecommunications facilities are being improved, and investment in capital construction this year will be 15 percent higher than last year. The new railway line is scheduled to go into service in 1988. In addition, construction of an airport with a 2,400-meter runway will begin later this year. It will be built over two years. Other schemes include the building of Longwan Port to berth 10,000-ton ocean-going ships, better roads, hotels and recreational facilities. A coaxial telecommunications cable is being laid from Hangzhou, capital of Zhejiang Province, to Fuzhou, capital of Fujian Province, via Wenzhou. About a third of a 136-kilometer stretch of coaxial cable in Wenzhou has been laid. This section, which will have a maximum capacity of 3,000 lines, will go into service at the end of this year--greatly improving long-distance telecommunications. Wenzhou, which has a population of 360,000, was one of 14 Chinese coastal cities recently opened to overseas trade and investment. [Text] [Beijing XINHUA in English 0653 GMT 22 May 85]

CSO: 4020/232

TAIWAN

# RESTRICTIONS ON IMPORTS LOOSENED

OW181451 Taipei CNA in English 1438 GMT 18 May 85

[Text] Taipei, 18 May (CNA)--Since the government decided to increase imports and simplify import procedures in 1983, the products which are prohibited from being imported into this country have been reduced from 17 to 14 items and the number of import items which are under control have also decreased from 921 to 649, an official with the Board of Foreign Trade [BOFT] said Saturday.

Currently, a total of 331 products are allowed to be imported into the Republic of China [ROC], but they must be handled only by qualified importers, and this number is much less than the 628 controlled product items of two years ago, the official said.

In the past, the government restricted importers, allowing them to buy 1,610 items of products from certain countries and areas, but now, most of these restrictions have been lifted, he added.

A total of 14 products, of which most, including narcotics, are produced on the China mainland, will not be allowed to enter the ROC. These items are only 0.05 percent of a total of 26,751 import items categorized by the government, the BOFT official said.

The import of 649 items of products of 2.43 percent of the total import items, including weapons, ammunition, gold, gambling machines and video-tape recorders, will still be under control, the official said.

At present, the government still restricts the nation's importers from buying 98 products items from certain countries and areas and in order to balance trade with some countries and to protect some domestic industries, the official noted.

CSO: 4020/243

TAIWAN

OFFICIALS REPORT SUCCESS IN COMPLETING PROJECTS

OW200251 Taipei CNA in English 0235 GMT 20 May 85

[Text] Chung Hsing New Village, 19 May (CNA)--The Taiwan Provincial Government completed most of the economic reconstruction projects in the third year of the 4-Year Economic Construction Plan in 1984, according to officials of the provincial government.

All the projects carried out by the provincial government in 1984 could meet the projected goals, the officials said.

Major projects completed by the provincial government last year included:

--Taiwan round-island railway network: The Tzu Chiang No 1 Tunnel on the railway route in eastern Taiwan was fully completed last year. Survey, planning, investigation, and soil test had been carried out for the construction of the southern-linked railroad.

--Three new east-west cross-island highways: The 90.2-kilometer Chiayi-Yushan Highway was completed by 86.85 percent at the end of last December, while 44.71 percent of the 71-kilometer Shuili-Yushan Highway was completed, but the engineering and financial plans of the 122-kilometer Yuli-Yushan Highway was still pending the Central Government's approval.

--Improvement of traffic in the Kaohsiung and Pingtung areas: Four highways totaling 64.1 kilometers in the areas were planned to enlarge to 4-lane traffic, 2 of which were completed.

--Developments of new cities and towns: The Oinkou Special Zone, which occupied an area of 1,322 hectares, was being developed, with 64.8 percent being finished. Construction of the first phase public utilities in the Taichung Harbor Special Zone occupying an area of 4,700 hectares was already completed.

--Building of housing units: In 1984, 26,730 housing units accommodating 134,000 people were either built or reconstructed.

CSO: 4020/243

TAIWAN

#### PROTECTION FOR INDUSTRIES LESSENER

OW030511 Taipei CNA in English 0244 GMT 3 Jun 85

[Text] Taipei, 2 June (CNA)--Economics Minister Lee Ta-hai pointed out Sunday that the government is to adopt a market function-oriented manufacturing industry policy, gradually lessening its protection to manufacturing industries in general.

However, he said, the government will still provide necessary assistance to those important specialized manufacturing industries at their initial stages.

Speaking at a seminar on manufacturing industry policies sponsored by the Chung-hwa Institute for Economic Research, Minister Lee noted that major industrialized countries are actively readjusting their industrial structures toward the directions of intensifying their capital-intensive industries, and lessening dependence on energy resources and primary raw materials.

He said facing the impact of the changes of other countries' manufacturing industry policies and the needs of domestic economic transformation, this nation must give an overall review to its current policies on manufacturing industries.

The Ministry of Economic Affairs is planning to establish the electronics and information industries as new leading sectors in the manufacturing industry, Lee noted.

He added that his ministry will also encourage large-scale production plans and investment in high technology manufacturing industries, and introduce into the country foreign investment and technologies, effectively engaging in techniques transfers.

On national corporations, Lee said the state-run enterprises should not be easily turned over to the private sector because they are assigned to carry out government policies. But, the Ministry of Economic Affairs will push the national corporations for more efficient management and operations, he added.

The economics minister stressed that under economic recession, instead of harboring pessimistic mentality, all sectors in the society should take prudent optimistic attitude to meet various challenges in the future.

TAIWAN

ECONOMIC MINISTER ON WORRY OF TRADE SURPLUS

OW011013 Taipei CNA in English 0934 GMT 1 Jun 85

[Text] Taipei, 1 June (CNA)--Steady growth of the Republic of China's trade surplus has become "a heavy burden" to the nation, Economics Minister T. H. Lee said Saturday at a meeting held to honor outstanding exporters.

Explaining his seemingly paradoxical statement, the economics minister said huge trade surplus has not only threatened commodity price stability in the country but also given rise to friction with the nation's trading partners.

Lee, who attributed the problem to overemphasis on the promotion of export trade in the past, said from now on "we should attach even greater importance to imports."

"We are poor in natural resources. Therefore, we have to import raw materials and capital equipment if we are to keep up our export rate and further develop our economy," Lee pointed out.

Commenting on the nation's growing exports to Hong Kong, he said most of the exports are for reexport to the Chinese mainland.

Although the Republic of China bans trade with the Chinese Communist-controlled mainland, the Government cannot stop the transshipment because it's part of free trade.

However, Lee added, the Government will not encourage the indirect trade either. He called on local exporters to watch the situation carefully instead of seeking short-term benefits.

While praising the exporters' performance last year, the economics minister noted that the ROC export volume has been steadily declining since last August, and negative growth occurred last March.

He also called on the nation's exporters to deal with the following problems:

--Over-concentration of export markets" the U.S. and Japan accounted for 59.3 percent of the ROC exports last year.

--Rise of protectionism which is threatening the export-oriented ROC economy.

--Deterioration of trade orders and decline of business ethics: cut-throat competition between local manufacturers and commercial counterfeiting are hurting the nation's export trade.

CSO: 4020/243

HONG KONG ECONOMIC TRENDS

JOINT LIAISON GROUP TO DISCUSS CUSTOMS, INTERNATIONAL TREATIES

HK040701 Hong Kong SOUTH CHINA MORNING POST in English 4 Jun 85 p 1

[By Stanley Leung]

[Text] Post-1977 customs arrangements and international treaties affecting Hong Kong will be on the agenda for the Joint Liaison Group's first meeting in London next month.

This was disclosed yesterday by the secretary for trade and industry, Mr Eric Ho, a British member of the group.

Mr Ho said Hong Kong's participation in the customs Co-operational Council after 1997 would be discussed, as would its role in the General Agreement on Tariffs and Trade and the Multi-Fibre Arrangement.

The council deals with the international exchange of customs information and intelligence.

Beijing and London decided that the first Joint Liaison Group meeting would take place in London between 22 and 25 July.

Mr Ho was speaking yesterday at the inauguration of the extension to the Ciba-Geigy building in Kwai Chung.

He said the opening of the complex demonstrated confidence in Hong Kong.

It was the government's intention to provide the best possible environment for local and international business, he said.

"Our re-exports to China have increased more than six-fold in the past 5 years and the suitability of Hong Kong as a location for the regional headquarters of any multi-national company is undisputed," Mr Ho said.

"Hong Kong in particular has a wealth of knowledge and experience in trading with China and offers advantages to overseas firms seeking to establish business contacts or to expand their existing business activities with that enormous potential market."



HONG KONG ECONOMIC TRENDS

PRC, UK ANNOUNCE MEMBERSHIP OF JOINT LAND COMMISSION

HK250944 Hong Kong AFP in English 0934 GMT 25 May 85

[Text] Beijing, 25 May (AFP)--China and Britain today announced membership of a key joint commission which is to oversee land sales in Hong Kong between now and 1997, when the territory passes to Chinese control.

In separate statements here and in Hong Kong, the Chinese Foreign Ministry and British officials each announced the membership of their own side.

The Chinese side is headed by senior representative Sun Yanheng and includes two other representatives, Li Weiting and Zhong Ruiming.

The Chinese members' current posts were not listed in the statement and could not immediately be learned.

(In Hong Kong, an official announcement quoting an official statement from London said that the British members of the land commission would be Director of Land John Todd, Registrar General Noel Gleeson, and Deputy Secretary for General Duties John Chan.)

Under the Sino-British Joint Declaration on Hong Kong, which was to come into full force on Monday with an exchange of instruments of ratification here, the present Hong Kong administration may sell more than 50 hectares (123.5 acres) of land per year.

The joint land commission will be empowered to raise the ceiling and allow the present Hong Kong Government to draw upon land revenues to be set aside for the post-1997 administration.

Land sales have been a major source of government revenue in the tightly-packed territory and the management of land sales between now and 1997 was among the final issues to be resolved in the Sino-British negotiations on the territory which ended last September.

CSO: 4020/244

HONG KONG ECONOMIC TRENDS

HONG KONG GOVERNMENT TAKES OVER OVERSEAS TRUST BANK

HK080821 Hong Kong SOUTH CHINA MORNING POST in English 8 Jun 85 pp 1, 9

[By John Mulcahy]

[Text] In a move that will cost Hong Kong at least \$2 billion, the government last night rushed through legislation approving the takeover of Overseas Trust Bank [OTB].

The Financial Secretary, Sir John Bremridge, last night told of a complex web of deceit that had been perpetrated since 1981, involving illegal transfers of "many hundreds of millions" out of Hong Kong and through Sri Lanka, Singapore and Malaysia.

Describing the takeover as the only alternative, Sir John presented to the Legislative Council a bill modelled on the 1983 acquisition of Hang Lung Bank.

The immediate effect of the bank rescue, which follows several days of high drama, including the late-night arrest of a bank official at Kai Tak airport, the arrests of three other bank executives and the establishment of a commercial crime bureau "command post" in the bank's head office, will be relief to thousands of depositors.

Three of the arrested officials will appear in Western Magistracy today on charges under the Banking Ordinance.

Police last night disclosed that a 35-year-old Malaysian man, a director of OTB, had been charged with failing to comply with the conditions of a notice issued under section 13 (1) of the Banking Ordinance.

Section 13 of the ordinance outlines the Banking Commissioner's powers of control over banks and enables him to take wide-ranging action if a bank reports that it is insolvent or unable to meet payments.

Under the new regime OTB will reopen for business on Monday morning, with management seconded from the Hong Kong and Shanghai Banking Corp.

The cost of acquiring the bank will be absorbed by the surplus on the Exchange Fund, which is Hong Kong's equivalent of a foreign currency reserve.

The fund itself now stands at about \$30 billion, but there is an undisclosed surplus that has arisen over the years on management of the cash, which is invested in numerous countries and currencies around the world.

It is the surplus that will bear the brunt of the cost, but the government last night declined to quantify the amount now in the fund, the cost to the fund of the earlier Hang Lung takeover or the full cost of the OTB rescue.

Both Sir John and the Commissioner of Banking, Mr Robert Fell, said last night it was too early to establish precisely where the missing millions had gone, but the method of transfer was sketched by Mr Fell.

The procedure by which funds were channelled out of OTB began in 1981 and Mr Fell cited a Simon Ip as a key figure in the affair.

Ip was involved in a deposit-taking company known as Dominican Finance, through which the bulk of the funds reportedly flowed.

Dominican Finance was itself the subject of attention by Mr Fell earlier this year, in his capacity as Commissioner of Deposit-Taking Companies.

He suspended the company's registration in March, pending further investigation, and its licence was later cancelled.

OTB's failure has had repercussions all over the world, with offices as distant as Macao and Toronto closed in the wake of the scandal.

Sir John insisted the bank's travails were the result of fraudulent mismanagement and could not be laid at the door of inadequate prudential supervision of Hong Kong's banking sector.

He did, however, concede that banking supervision needed improvement and drew attention to the extensive discussions in this direction that Mr Fell was holding with the banking community.

At the time of the Hang Lung takeover, in September 1983, the government stressed that it was not establishing a precedent, and the acquisition should be seen as one of a kind.

Sir John said at a press briefing he would have found no difficulty in arguing the case for allowing OTB to collapse and go into liquidation, but the alternative was even less attractive.

One option would have been to guarantee all deposits up to a certain amount, say \$50,000, and to satisfy other claims on a pro rate basis to the extent of the remaining assets.

But he said the implications for the banking sector as a whole would have been serious and he confessed to considerable pressure from the international banking community in Hong Kong and abroad to satisfy all claims against the bank.

Failure to do so, Sir John said, may have led to the withdrawal of funds invested by foreign banks in local institutions, possibly leading to the collapse of the local system.

It was the knock-on effect, not only of a small number of credit lines being withdrawn, but of a deterioration in the perception of Hong Kong as a credible financial centre, Sir John said.

Questioned on the need for more efficient intelligence in the banking sector, so that such problems might be exposed earlier, Mr Fell said "99 percent of commercial activities in Hong Kong and any other centre go on in perfect honesty."

He added: "In any market where money is sloshing around you will find someone who will take advantage of the system."

Commenting on the OTB takeover the deputy to the governor, Sir Philip Haddon-Cave, said the decision was the right one given the circumstances.

"I am sure it is the right (decision), in the interests of the banking industry as a whole, and having regard to the fact that Hong Kong is an international financial centre."

Sir Philip said Hong Kong has a good system of prudential supervision in place, "but it is very difficult to stop people behaving in a criminal way."

Sir John said the lively debate in the Legislative Council [Legco] on the merits of the acquisition signalled the problems any future attempts at passing such laws would face.

For shareholders in OTB the future is bleak, as their shares have legally been transferred to the government, and the only status they now have in the company is as compensation claimants.

But the prospects for compensation are remote, according to the financial secretary, who told Legco creditors of the bank would have been paid only 70 percent of their claims had OTB been liquidated.

CSO: 4020/244

HONG KONG ECONOMIC TRENDS

PRC ATTENDS INTERNATIONAL BANKING CONFERENCE

OWO41704 Beijing XINHUA in English 1448 GMT 4 Jun 85

[Text] Hong Kong, 4 June (XINHUA)--The Pacific will continue to be the main engine for global economic advancement for the rest of this century, and probably well into the 21st century, said Malaysian Prime Minister Mahathir Mohamed.

He made the statement in a speech at the first session of a 3-day International Monetary Conference (IMC) titled, "Asia-Pacific Review: Outlook for the Region," which opened here Monday.

He said: "The Pacific is most likely to remain a dynamic center for world economic development."

However, he noted, there is no room for any illusions. The dangers faced by Asian-Pacific countries stemmed from rampant protectionism and foreign debts. There are also fears with regard to the military build-up of the Soviet Union in this region, he said.

The prime minister expressed special concern over what he called the great threat of "the emerging economic cold war between the United States and Japan, and the serious conflicts between these states."

He warned, "if this conflict is not satisfactorily resolved, all the states in the Pacific and much further afield will be squashed one way or another."

Hong Kong Governor Edward Youde said in his speech at the IMC president's dinner Sunday that, "as one of the world's most externally-oriented and open economies, Hong Kong's prosperity is closely linked with developments in the world economy in general and in the Asia-Pacific region in particular."

Hong Kong will not shrink from fair competition, he said, and will continue to invite new international business enterprises to locate here.

Youde went on to say that a new factor for the rapid growth of the Asia and Pacific region is China's modernization policy. Being an obvious gateway to the Chinese mainland, Hong Kong has the best potential as a base for doing business with the world's most populous nation.

The second session of the conference is entitled, "The People's Republic of China: Regional Overview, an Emerging Force in World Trade, and Market and Investment Opportunities." The other sessions will deal with central banks and international debts.

Since its first meeting in the United States in 1954, the conference is an annual event which gathers senior government and banking officials the world over to discuss significant international financial and economic issues.

The current conference is being attended by representatives of 110 banks and officials from 22 countries including Australia, Brazil, Britain, Canada, Denmark, France, Federal Germany, Japan, Portugal and the United States, as well as Hong Kong.

Participants include U.S. Undersecretary of State Michael Armacost, Director and Vice-President of the Bank of China Wang Deyan and Indonesian Minister of Finance Radius Prawiro.

CSO: 4020/244

HONG KONG ECONOMIC TRENDS

EXPANSION NOTED IN HONG KONG HOTEL INDUSTRY

OW282011 Beijing XINHUA in English 1901 GMT 28 May 85

[Text] Hong Kong, 28 May (XINHUA)--Hong Kong's hotel industry becomes a popular channel of investment alongside the booming tourism industry. This was indicated in a recent report on the local hotel industry published by the Hong Kong Tourist Association.

After completion of the 10 hotel projects presently under construction or planning, Hong Kong will have 60 hotels by 1987 with a total of 22,730 rooms compared with the present 17,979, the report said.

The growing interest in the hotel industry comes from the rapid increase in the number of tourists (up 36.9 percent in the past 5 years) which subsequently leads to a shortage of hotel rooms.

Three million one hundred fifty one thousand seven hundred tourists have visited Hong Kong in the past 5 years. This 36.9 percent increase in the number of tourists has posed a problem in the supply of hotel rooms, which increased only 19.9 percent over the same period.

The average hotel room occupancy rate reached 89 percent in Hong Kong last year, climbing to 97-98 percent during the peak season in October and November, compared with the world average of 60 percent.

The report showed that 4.026 billion Hong Kong dollars (about 520 million U.S. dollars), or nearly 29.7 percent of the total expenditure of tourists in Hong Kong last year, were spent on hotel accommodations.

The report also forecast that the hotel room occupancy this year will reach a saturation rate of 94 percent. An 85 percent of occupancy is expected in 1988 when 10 additional hotels are completed.

Prominent hoteliers engaged in the local hotel industry include Japan Airlines Development Co Ltd, New World Development Co Ltd, and the Swire Group, a long-established British group in Hong Kong the report disclosed.

That Hong Kong remains to be a center of tourist attraction can be attributed to the improvement of the economic conditions in Western countries and to China's open policy, note local analysts. The Hong Kong Government also offers a helping hand in developing the city into an international conference and exhibition center.